Weekly Energy Status Report

1. Northwest Power Pool Status (WA, OR, ID, MT, WY, UT, No. NV, BC, AB)

- Power Pool peak load (Tuesday, 4/6): 42,309 MW
- Reserve margins were within comfortable ranges for Northwest Power Pool utilities.

2. Electricity, Petroleum and Natural Gas Prices

- Weekly Range at Mid-C: $35.4- 40.2 per MWh, Ave. = $37.6
- Approximate change from previous week $+1.3 per MWh
- "Normal" price range, before 5/00 $20-$40 per MWh
- Petroleum, West Texas Intermediate: $34.98 per barrel (year ago: $37.75)
- Seattle gasoline price (4/6) $1.87 per gallon (year ago $1.87),
- Natural gas, Sumas Hub: $4.66 per million British Thermal Units (year ago $5.77)
- Approximate change from last week. Oil: -0.47 $ per barrel; Nat. gas: +0.13 $ per MMBtu

3. California Electricity Situation

- CA ISO Alert Status
  - A stage 1 alert, due to an unexpected heat wave, was declared on Mar. 31, 2004.
  - 20 minute outage in So. Calif. on March 8, 2004 due to operator error.
  - A stage 1 alert (7% reserve margin) was declared on May 28, 2003.
  - Most recent rotating blackouts: Tuesday, May 8, 2001
- Energy News Headlines from around the Nation
  - Motorist's may soon try ethanol blended gasoline (Seattle PI, Apr. 5)
  - Govt. to enforce air conditioner standards (Seattle PI, Apr. 2)
  - Utility could have prevented blackout (Desert News, Apr. 6)
  - 'Cleaner, Greener', Locke signs enviro. bills (Seattle PI, Mar 31)

4. River and Snowpack Information (Updated: Apr. 6, 2004)

- Observed February stream flow at The Dalles: 81.8% of average,
- Observed March precipitation above The Dalles: 69% of average,
- Observed snow pack, early March: 91% of average,
- Estimated Jan.-July runoff at The Dalles: 83.6 MAF, 78% of normal,
- Federal hydropower generation in March: 7,111 aMW, 1995-2002 average: 9,624 aMW.

5. Energy Conservation Achievement (Updated: Feb. 11, 2004)

- **State Agencies:** From Oct thru Dec 2003 electrical usage was 9 % less and natural gas usage was 21.3% less compared to the same period in 2000.

6. Power Exchanged: (Updated: Apr. 6, 2004)

- Average flow of power during the last 30 days
  - California (exported to) 1,876 MW
  - Canada (exported to) 1,235 MW
  - Net power export: 3,111 MW

Motorists may soon try ethanol-blended gas

By MARGERY BECK, A.P., Seattle PI April 5, 2004.

More motorists may soon be trying ethanol-blended fuel - not from a concern for the environment, but because of worries over their wallets.

Ethanol industry leaders say the recent sharp rise in gasoline prices could prove to be a boon for ethanol-blend gasoline, which is as much as a nickel-per-gallon cheaper than regular gas at pumps around the Midwest.

"It's true that the economy of ethanol makes it more attractive to consumers financially than straight gasoline," said Ron Lamberty, market development director of the American Coalition for Ethanol in Sioux Falls, S.D. "If there's an upside to higher gas prices, I guess that's it."

In the competitive market around Omaha, some gas stations offer E-10 gas - 90 percent gasoline blended with 10 percent ethanol - at prices 4 cents a gallon cheaper than regular.

One of those is the Fantasy's station in Papillion, Neb., where a gallon of E-10 sold Monday for $1.64, compared to $1.68 for a gallon of regular blend gas.

While motorists haven't exactly abandoned conventional gasoline, sales of E-10 "might have jumped a little bit," said station manager Lorrie Randels.

"Most people who buy unleaded are die-hard unleaded fans who want nothing to do with ethanol," Randels said. "Then you have those who just want the cheapest gas they can get."

One reason there may not have been a drastic spike in E-10 sales at Fantasy's is that the alcohol-blended fuel is already the station's top seller, Randels said. But if gas prices continue to climb, Randels expects to see even more people switching to the cheaper ethanol blend.

Todd Sneller, administrator of the Nebraska Ethanol Board, said gasoline blended with ethanol - made mostly from corn - has 55 percent of the fuel market in Nebraska. It hovers around 30 percent nationally.

There are several reasons ethanol-blended gas can be offered cheaper than regular gasoline, Sneller noted. One is that the industry is aided by a federal tax break that cuts 51 cents from the sale of each gallon of ethanol - or 5.1 cents from every gallon of gasoline containing 10 percent ethanol.

Several ethanol-producing states, such as Iowa, South Dakota and Idaho, also offer state incentives that range from 1 cent to nearly 3 cents per gallon of ethanol fuel. Those savings are often passed on to consumers in corn-producing states.

Ethanol's profile has exploded nationally in recent years, thanks to recent bans of the additive's largest competitor, petroleum-based fuel additive methyl tertiary butyl ether - or MTBE, which was found to pollute ground water.

That opened up once-nonexistent markets on the West Coast and in the Northeast, where the density of vehicles makes a clean-air fuel additive like ethanol a necessity.

Subsequently, ethanol production jumped from 2.13 billion gallons in 2001 to 2.81 billion gallons last year. Production is expected to reach 3.5 billion gallons this year, according to the industry.

"We're literally seeing unprecedented demand for ethanol," Sneller said. "Ethanol producers are selling every gallon they make."

Coastal retailers, however, have not generally passed on the savings they get from selling ethanol-blended fuel to consumers, Sneller said. It's not unusual to see California stations selling ethanol blends for as much as 10 cents more a gallon than regular.

The reason is that ethanol-blended fuels have a higher octane - 89 - than regular unleaded gas, allowing retailers to market it as a higher quality product.

But with gas prices threatening to break the $2-a-gallon average this summer, even some of those markets could change their ways, Lamberty said.

If gasoline prices climb high enough, even those reluctant to try ethanol-blended gas might be willing to give it a try to save some money, Lamberty said.

"That's exactly what we're hoping for," he said. "People are creatures of habit, and ethanol is a good product. If they try it, they'll keep buying it."

Gov't to enforce air conditioner standards

By H. JOSEF HEBERT, A.P., Seattle PI, April 2, 2004

The government agreed Friday to require new central air conditioners and heat pumps to be 30 percent more efficient beginning in 2006.

The Energy Department said it would not challenge a January court ruling stopping it from replacing a Clinton administration rule with one requiring a less stringent standard.

"At this point all parties have had their say in court" and it was time to stop the litigation, Assistant Energy Secretary David Garman said in a statement.

Department officials said they would tell manufacturers that they would enforce the tougher standard, although they previously had tried to roll it back to 20 percent.

The 30 percent increase is estimated to save consumers $3.4 billion in energy costs and avoid the construction of 150 power plants in 2020 when the new units are expected to be in wide use, said the Alliance to Save Energy, an advocacy group.

It is "a great victory for consumers who have been whipsawed this year by winter heating bills and then record gasoline prices," said Kateri Callahan, alliance president.

A federal court ruled that the Energy Department had violated the law when it scrapped the Clinton administration rule and substituted one calling for a 20 percent increase in energy efficiency. The court said Congress, in creating the efficiency standards, made clear that once a standard is on the books it cannot be rolled back.

The Natural Resources Defense Council, consumer groups and attorneys general from 10 states had filed a lawsuit challenging the Bush administration's 20 percent increase.

The regulation requires manufacturers of home central air conditioners and heat pumps to meet a SEER-13 standard, compared to the maximum SEER-10 standard now in effect. The Energy Department had wanted to limit the increase to SEER-12.

SEER, which stands for seasonal energy efficiency ratio, is a measurement of efficiency for appliances.

While the new requirements won't take effect until after 2005, Garman said the Energy Department wanted to make clear it will enforce the more stringent requirements.

"In the interest of giving consumers and industry the regulatory certainty they need it is time for the government and for private parties to stop litigating and start working toward complying" with the tougher standard, he said.

Major manufacturers had argued that if they are required to have all their units meet the higher standard, the cost of air conditioning systems will escalate and outweigh energy savings in parts of the country with cool temperatures. Nevertheless, the manufacturers recently dropped a lawsuit challenging the new standard.

Air conditioners and heat pumps account for two-thirds of electricity use during peak summer demand periods. Improved efficiency in these units is viewed as key to reducing electricity demand and easing the strain on the nation's power grids during peak periods.

Utility could have halted blackout

Salt Lake City Desert News, April 6, 2003.

An Ohio power company should have prevented last summer's blackout across a wide swath of North America by intentionally cutting off electricity to most of the Cleveland area, U.S. and Canadian officials said Monday.

In their final report on the Aug. 14 blackout that darkened much of the Midwest, the Northeast and Ontario, a panel convened by the two national governments put much of the blame on FirstEnergy Corp., one of the United States' largest utilities, in whose eastern Ohio territory the collapse began. The inquiry found that not only did FirstEnergy not "shed load," or shut off some customers as a preventive measure, the company apparently did not have a plan for doing so on short notice.

"We believe that if First Energy had shed as much as 1,500 megawatts of load in the Cleveland-Akron area" then the blackout "would have been a local Ohio problem," said Alison Silverstein, senior energy policy adviser to the U.S. Federal Energy Regulatory Commission, which was one of the investigators. FirstEnergy's problems became acute at about 3:05 p.m., but Silverstein said the cascading failure could have been prevented until 4:05:57, about three minutes before the blackout began.

Power companies fairly frequently cut off electricity to some customers to prevent an isolated problem from spreading, but they are loath to do so on a large scale. Federal officials say that without a protocol for blacking out a wide area, doing it quickly would have been chaotic.

"Had we blacked out Cleveland, it may or may not have prevented the event," said Chuck Jones, senior vice president for energy delivery at FirstEnergy.

But Jones said the international investigation had glossed over the problems created by a rise in long-distance power transmission in recent years. He said power being shipped from southern Ohio to Ontario, across FirstEnergy's territory, was one cause of the company's problems the day of the blackout.

"We take exception to the idea that you should interrupt local customers in favor of long-distance transactions," he said.

The report did not fully explain why the cascade spread from Ohio to Michigan to Ontario to New York, while other areas were spared. Each region is connected to its neighbors by relays, switches on the major transmission lines, which can cut off the flow of power automatically when serious trouble is detected.

'Cleaner, greener': Locke signs enviro bills

By DAVID AMMONS, Seattle PI, March 31, 2004

OLYMPIA, Wash. -- Gov. Gary Locke on Wednesday signed into law the nation's toughest siting standards for new power plants, hoping to combat global warming by reducing the effects of carbon dioxide emissions.

The legislation was part of a five-bill package the governor signed with fanfare and a promise of a "cleaner, greener future for our state."

Other bills deal with stormwater runoff, oil spill prevention in coastal and inland waters, and a crackdown on shippers' bringing foreign invasive species into Washington waters through ballast water discharge.

Locke called the measures an unusually strong environmental package, and credited both houses and both parties, business and the environmental community, and experts from across state government.

"This is truly a significant package. It will make a measurable difference for years to come," the governor said as he signed the final environmental bills of his eight-year tenure.

The power plant legislation, House Bill 3141, gives the force of state law to rules the Locke administration handed down last fall. Washington is building on the program pioneered by Oregon in 1996. California is developing a similar crackdown, under a West Coast project by the three governors.

"These are the strongest standards in the nation for power plants," the governor said.

Locke says new power plants are the No. 1 source of carbon dioxide pollution, and fossil-fuel plants in the United States account for 10 percent of the planet's carbon dioxide problem.

Future power projects will have to offset fully 20 percent of their expected carbon dioxide emissions. Owners can plant trees, pay for natural gas-powered transit buses or pay mitigation experts to figure it out.

The new uniform permit requirement, replacing case-by-case negotiations on each project, was developed by the Energy Facility Site Evaluation Council, the state agency that issues permits for large power plants of 350 megawatts or more. A 350-megawatt plant could supply a quarter of Seattle's annual power needs.

The state Department of Ecology will impose similar standards on smaller projects. The siting council is authorized to adjust the spending requirement for mitigation for new applicants every two years.

Experts calculate the cost of offsetting the pollution at $1.60 per metric ton per year. A typical 650-megawatt natural gas-fired plant would emit roughly 12 million metric tons of carbon dioxide over 30 years.

Those costs likely would be passed along to customers.

A business using one megawatt of power per year, with a $350,000 utility bill, might pay an extra $570 a year, Locke said last fall. The annual pass-along cost for the average home customer would be under $1 per year, he said.

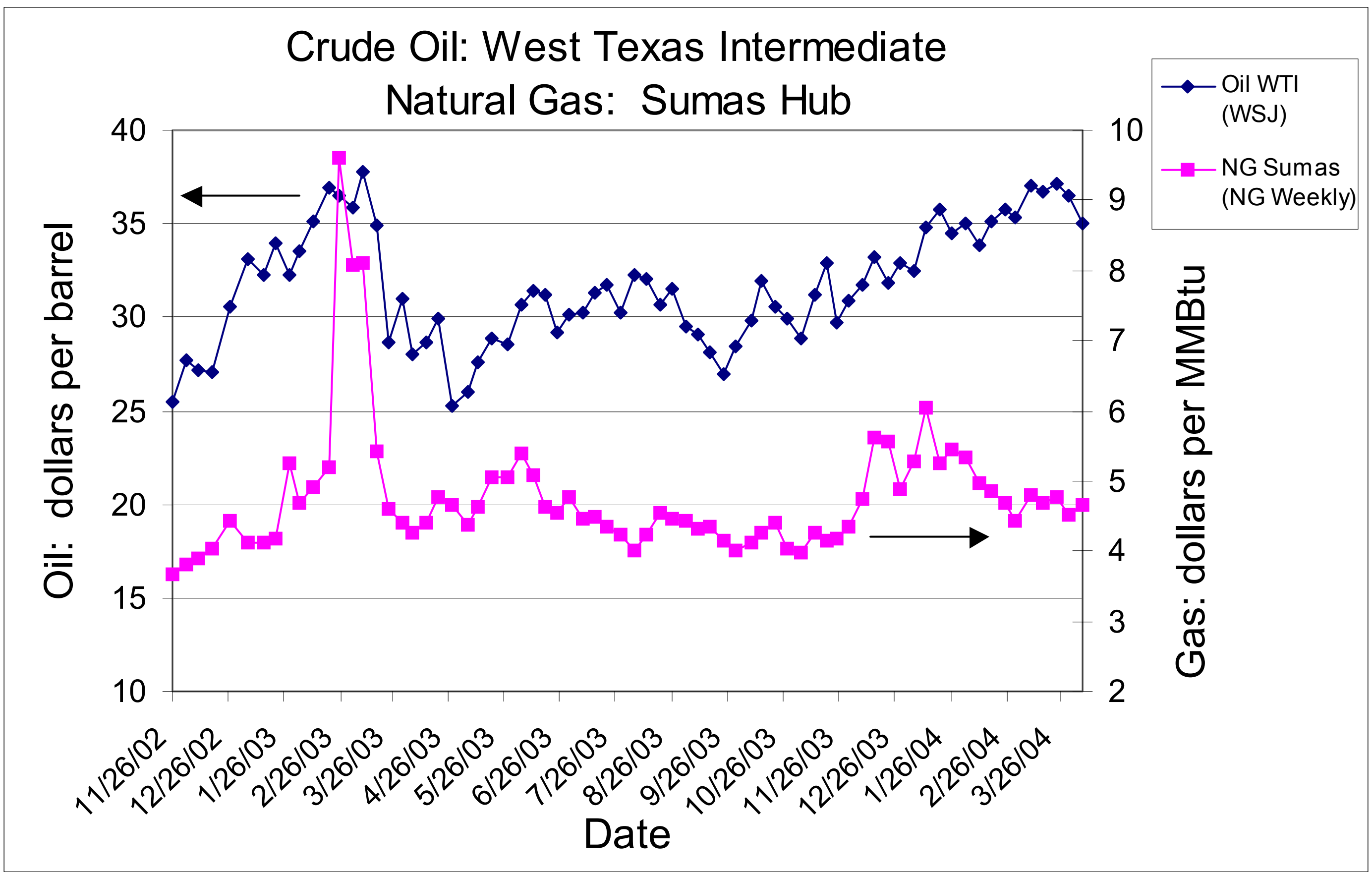
Recently approved plants at Sumas, Chehalis, Satsop and Wallula all have mitigation agreements. Owners of the Sumas project are still seeking Canadian approval and may have to change their transmission corridor.

Existing plants will not be required to retrofit or pay into a mitigation account.

"This legislation is a winner both for the environment and businesses," the governor told a signing-ceremony attended by dozens of legislators, business representatives and environmental leaders.

"Having clear standards in place will decrease CO2 emissions that lead to global warming, create more certainty for businesses, decrease rulemaking costs, and speed up permitting processes by as much as a year."

Natural gas prices have moderate over the past two months, while petroleum prices are down slightly from the highs of two weeks ago.



Visit the CTED Energy Policy Website to view the new publication: Gasoline Fuel Price Primer.

http://www.cted.wa.gov/DesktopDefault.aspx?TabId=440

Weekly Energy Status Report

1. Northwest Power Pool Status (WA, OR, ID, MT, WY, UT, No. NV, BC, AB)

- Power Pool peak load (Tuesday, 4/13): 40,837 MW
- Reserve margins were within comfortable ranges for Northwest Power Pool utilities.

2. Electricity, Petroleum and Natural Gas Prices

• Weekly Range at Mid-C:	$39.2- 41.7 per MWh, Ave. = $40.2
• Approximate change from previous week	$+2.6 per MWh
• "Normal" price range, before 5/00	$20-$40 per MWh
• Petroleum, West Texas Intermediate:	$36.49 per barrel (year ago: $37.75)
• Seattle gasoline price (4/13)	$1.91 per gallon (year ago $1.84),
• Natural gas, Sumas Hub:	$5.01 per million British Thermal Units (year ago $5.77)
• Approximate change from last week.	Oil: +2.01 $ per barrel; Nat. gas: +0.35 $ per MMBtu

3. California Electricity Situation

- <u>CA ISO Alert Status</u>
  - A stage 1 alert, due to an unexpected heat wave, was declared on Mar. 31, 2004.
  - 20 minute outage in So. Calif. on March 8, 2004 due to operator error.
  - A stage 1 alert (7% reserve margin) was declared on May 28, 2003.
  - Most recent rotating blackouts: Tuesday, May 8, 2001

- Energy News Headlines from around the Nation
  - Reckoning for energy firms (LA Times, Apr. 13)
  - Gas prices soar, Angelenos shrug (NYT, Apr. 10)
  - Shell refinery closure called move to drive up gas prices (Sac. Bee, Apr. 7)
  - Faults still plague electric grid as peak use summertime nears. (WSJ Apr. 14)

4. River and Snowpack Information (Updated: Apr. 6, 2004)

- Observed February stream flow at The Dalles: 81.8% of average,
- Observed March precipitation above The Dalles: 69% of average,
- Observed snow pack, early March: 91% of average,
- Estimated Jan.-July runoff at The Dalles: 83.6 MAF, 78% of normal,
- Federal hydropower generation in March: 7,111 aMW, 1995-2002 average: 9,624 aMW.

5. Energy Conservation Achievement (Updated: Feb. 11, 2004)

- **State Agencies:** From Oct thru Dec 2003 electrical usage was 9 % less and natural gas usage was 21.3% less compared to the same period in 2000.

6. Power Exchanged: (Updated: Apr. 13, 2004)

- Average flow of power during the last 30 days
  - California (exported to) 1,831 MW
  - Canada (exported to) 1,165 MW
  - Net power export: 2,996 MW

Reckoning for Energy Firms

LA Times Apr. 13, 2004

The first criminal indictments brought against a company for helping to orchestrate California's 2000-01 energy crisis offer the strongest evidence yet that company policies, not just rogue individual power traders, were to blame. The April 8 indictments of Houston-based Reliant Energy Services Inc. and four current or former employees should also jolt the Federal Energy Regulatory Commission, which has been slow to punish anyone for the crisis and even slower to order restitution for Californians who continue to pay high energy bills.

In announcing the federal indictments, Atty. Gen. John Ashcroft stated the underlying cause clearly even as he hinted at more charges to come: "When evidence shows that a company's culture breeds corruption and disrespect for the law, the Department of Justice will not hesitate to bring criminal charges against the company itself."

That culture is evident in transcripts from the height of the crisis. A June 21, 2000, transcript released by FERC shows a trader boasting about Reliant closing down power plants to create a shortfall that drove up prices. The trader tells of a manager who "just thought that was the coolest strategy ever." Another trader acknowledges that the plan would have failed had not "everybody in the whole group bought into it wholeheartedly."

The energy shortage sent electric rates and corporate profits skyrocketing and left Californians saddled with high-priced long-term energy contracts. The Reliant transcripts add to the growing pile of evidence that profit-hungry companies clearly knew what they were doing. Telephone records previously released by FERC showed employees of another energy provider, the Williams Cos., using flippant language to describe long plant shutdowns and lengthy repair projects that disrupted energy generation and boosted corporate profits. Enron Corp. and others concocted trading schemes with such names as Death Star, Ricochet and Fat Boy to fatten energy profits. In late March, yet another set of transcripts from the crisis shows traders in Nevada orchestrating deals that seemed designed to trick California into paying top dollar. Upon hearing that temperatures in Los Angeles were heading toward records, one trader crowed: "Mo' money, mo' money, mo' money."

Ashcroft's strong language about Reliant's alleged criminal activity provides a stark contrast to FERC's initial unwillingness to investigate the costly crisis and its subsequent decision to slap minimal civil fines on market manipulators. The indictments also provide valuable evidence in support of California's claim that utility customers deserve $9 billion in refunds.

Peter Navarro, a UC Irvine economist, stated the issue bluntly last week: A criminal indictment "doesn't mean anything unless it translates into breaking the overpriced energy contracts and getting the refund that we've requested."

Gas Prices Soar, Angelenos Shrug

By JOHN M. BRODER

NYT: April 10, 2004

It's going to take a lot more than $2.39-a-gallon gasoline prices to get Angelenos out of their cars.

"To be honest, I don't even pay attention to what the price is," Timothy Jameson said as he pumped $20 worth into his Mitsubishi Spyder at a Shell station in the Sherman Oaks section.

Mr. Jameson, a voice coach, said he would support more taxes to expand Los Angeles's runty subway system or to create more efficient street-level public transit. But until that far-off day, he said, he needs his car to take him where he needs to go, the price of gas be damned.

The average price of regular gas in California has shot up 50 cents a gallon since the first of the year, to $2.12, nearly 40 cents higher than the national average. In many places in Southern California, the price is higher still.

But Angelenos have not responded by parking their cars and hopping onto public transit. In fact, ridership on the Metropolitan Transit Authority's bus and fledgling subway lines is down from a year ago. M.T.A. officials attribute the drop to the lingering effects of a 35-day transit strike last fall. Many riders, the officials say, found alternative ways to work and have not returned.

Nor does it appear that Southern Californians have significantly altered their car-buying habits. This is a state, after all, where the governor drives and promotes the gas-devouring Hummer.

Jake Harper, who sells Hummers at the Casa Automotive Group in Sherman Oaks, said customers there were still buying 60 to 80 of the 6,400-pound military-style vehicles a month. Sales are down from a peak of 100 a month a year ago, but Casa Automotive continues to sell more Hummers than any other dealership in the United States.

"Gas mileage?" Mr. Harper said. "It's never been a factor. A few people bring it up, but it hasn't affected their behavior."

He said the $52,000 Hummer H2 got 12 miles a gallon on the highway and perhaps 10 in the city.

"If they ask," he said of prospective customers, "we give them the answer: it's lousy. That's why it's not on the window sticker. I can't recall anyone who didn't buy because of the mileage."

Mr. Harper, who has sold cars for more than 30 years, said the effect of the current gasoline price spike was nothing like what he saw in the late 1970's and early 1980's.

"Back then," he said, "people just stopped buying big cars. Zero. People did change their buying habits. But there's no indication of that today. People are talking about gas prices, but they're not doing anything about it."

In fact, while California gas prices are at historic highs in nominal terms, average prices after inflation are below those of 1979 to 1982. In 1981, the average price for the year was $2.42 in today's dollars, almost 15 percent higher than the current statewide average.

Elizabeth Deakin, director of the University of California Transportation Center, said gas prices would have to rise significantly higher to affect drivers' behavior appreciably. A 50-cent-a-gallon increase, Dr. Deakin noted, adds only a few pennies a mile, or less than a quarter a day for most drivers.

"I wouldn't expect that quarter to be something that people will react strongly to," she said. "Those who would feel it are already on the bus or walking."

Yet there are some faint stirrings of concern among Los Angeles commuters. The city transit authority has seen a marked increase in the number of visits to its ride-sharing Web site, to 6,431 in March from 2,335 in January, said David Sutton, executive manager of the authority's Metro Commute Services. Mr. Sutton was unable to say how many of those hits had resulted in car-pooling, or whether they had been inspired by rising gas prices or the frustrations of dealing with Los Angeles's freeways, congenitally congested. (Ride-sharers get to use more than 1,000 miles of car-pool lanes on California freeways.)

In addition, Toyota dealers report waiting lists of two to three months for the company's popular Prius gas-electric hybrid model, which gets more than 40 miles a gallon. Honda, Ford and Toyota are expanding their lines of hybrid vehicles, though California is still a long way from the fuel-efficient "hydrogen highway" that Gov. Arnold Schwarzenegger envisions.

At the Shell station in Sherman Oaks, Tracii Guns, guitarist for the heavy-metal band Brides of Destruction, was filling up his 1999 Corvette — $35 for 14.5 gallons. "Ouch," he said. "I've been flirting with the idea of getting a Vespa scooter, or maybe a Mini."

Sam Botnick, director of operations for Vespa of California, which runs four Southern California scooter dealerships, said it sold more scooters in March than in any other month in the last two and a half years. He attributed the increase in part to the rise in gas prices, although he said there were probably other factors as well.

The Vespa has its origins in postwar Italy, where gas was extremely scarce. It gets about 70 miles a gallon and costs $3,000 to $6,000, depending on the model.

Mr. Botnick said his company's four outlets sold 65 scooters in March. That's almost as many as the Hummers that Casa Automotive sells in a typical month.

Shell refinery closure called move to drive up gas prices

By Jon Ortiz *, Sac. Bee April 7, 2004*

A consumer advocacy group Tuesday renewed its charges that Shell Oil Products is manipulating gasoline prices by closing and demolishing its Bakersfield refinery later this year.

The Foundation for Taxpayer and Consumer Rights released internal Shell documents showing Bakersfield's refining margin at $23.01 per barrel, or about 55 cents profit per gallon, which topped all of Shell's U.S. refineries.

"Only an oil company that wants to short the market and artificially drive up the price of gasoline would demolish a highly profitable refinery rather than sell it," said Jamie Court, president of FTCR.

Shell spokesman Cameron Smyth denied the charges.

"Shell made the decision to close the refinery due to a lack of crude in the San Joaquin Valley," Smyth said. "Any assertion that the decision was made to restrict supply or drive up prices is absolutely false."

Shell plans to dismantle the plant after it closes Sept. 30, Smyth added, but the company will entertain "credible offers" from prospective buyers.

"We are absolutely willing to sell the facility," he said, "but we have received no offers to date."

The Bakersfield refinery produces about 2 percent of California's gasoline supply. Shell plans to make up for the lost production with gas from its other refineries, including facilities in Martinez and Wilmington.

Faults Still Plague Electric System As Peak Summertime Use Nears

WSJ Apr. 14, 2004

As the summer months approach, North America's electricity system remains frail and many of the shortcomings that contributed to a massive failure eight months ago have yet to be fixed.

Investigators and utility executives agree that the electric system still is plagued by the kinds of weaknesses that left 50 million people in the U.S. and Canada without power Aug. 14. A major study of the blackout cites lingering deficiencies, including poorly prepared engineers, faulty equipment settings, voluntary reliability standards and muddled oversight.

"The transmission system has been leaned on and leaned on and it's in fairly fragile shape now," said Joseph Welch, president of International Transmission Co., a Novi, Mich., electric-transmission company. Adds Kenneth Rose, senior fellow at Michigan State University's Institute of Public Utilities: "Ironing out all the problems will be fairly difficult."

Utilities, reliability councils and grid operators are working to fix as much as possible before temperatures rise. While weather is a big variable, electricity demand could rise from last year as the economic recovery gathers steam. In the mid-Atlantic region, the grid operator is forecasting potential record demand for electricity this summer, while New York state also is forecasting higher demand.

The U.S.-Canada Power System Outage Task Force, which was assigned to examine the Aug. 14 blackout, last week declared that the system "is likely to be more vulnerable to cascading outages than it was in the past." A separate audit, of the Midwest grid operator conducted by the North American Electric Reliability Council, or NERC, which is responsible for grid reliability and safety, found additional problems, though it noted improvements.

But FirstEnergy Corp. of Akron, Ohio, the company most deeply implicated in the August incident, contests many of the findings of the blackout report. FirstEnergy says it has fixed some problems.

Some of the system's weaknesses are being addressed, such as the need to improve the computer tools that are designed to anticipate grid problems and suggest defensive action before a widespread failure occurs. The NERC audit found that the Midwest Independent Transmission System Operator, the body unable to stop last summer's failure, has made strides to improve its readiness. For example, its ability to monitor grid conditions is now displayed through better control-room wall maps that show flashing lines when transmission-line loads approach dangerous levels.

Meanwhile, utilities and grid operators have stepped up training of control-room operators, who manage power flows. Most utilities have added five days of emergency training that they're attempting to complete by June 30. Cinergy Corp., for example, is using a simulator to test operators' ability to quickly stabilize a system coming unglued. "It's 'what would you do in the next five minutes if thus- and-so happened?' " says Ron Jackups, vice president of electric system operations.

In Michigan, International Transmission is using helicopters and high-resolution photography to spot worn out equipment. "We can detect loose bolts, line erosion, you'd be amazed," says Mr. Welch. His firm also uses 3-D photography to see if trees are too close to transmission lines.

But many other problems remain. At the Midwest system operator, the computer system that warns the grid operator of trouble is still too slow to be effective in an emergency. That system, whose predecessor version froze up on Aug. 14, takes eight to 10 minutes to run its program -- an eternity in electrical terms. Once the blackout got rolling, it engulfed eight states and Ontario in six minutes.

Perhaps even more entrenched are structural problems. The Midwest grid operator, for example, has 33 separate transmission systems within its footprint, reflecting fragmented utility ownership. Yet not all are members of the Midwest grid organization -- some report to PJM Interconnection LLC, the mid-Atlantic operator. That muddies lines of communication, especially in an emergency.

Many in the sector question whether the industry's current contingency planning -- which calls for operating the transmission system in a way that would withstand the loss of its biggest power plant or transmission line -- is rigorous enough. "You have to really understand your system's weaknesses," says Terry Winter, chief executive of the California grid operator in Folsom, Calif.

A big push is on to inspect relay settings so they don't prematurely trip equipment out of service. Relays are designed to electrically isolate equipment from the grid. Ironically, one problem is that the sensors sometimes work too well. NERC investigators determined that many relays were set to issue shrill warnings as soon as trouble appeared. On Aug. 14, the relays reacted too quickly, causing the system to break apart as much as half an hour sooner than necessary and eliminating valuable time in which a competent grid operator might have intervened.

The resolve to address such problems may be complicated by the close relationship between utilities and the "local reliability councils" set up around the country to make sure that utilities follow safe practices. There are 10 such councils nationally, which critics say sometimes are dominated by or otherwise too close to the utilities they oversee. For example, FirstEnergy performs payroll services for the East Central Area Reliability Council, or ECAR, which is assigned to monitor safe practices from Kentucky to the Great Lakes. FirstEnergy allows the organization's employees to participate in the utility's 401(k) retirement plan and gives them shares of FirstEnergy stock.

"We had no idea of that arrangement," until identified in the blackout report, said Ellen Vancko, spokeswoman for NERC in Princeton, N.J. NERC has no control over the governance of the reliability councils, as Congress specifically deferred to industry self- regulation when it created the reliability-council structure in 1968 after a large Northeast blackout.

ECAR didn't return calls.

In the aftermath of the 2003 blackout, investigators have had trouble finding common ground with FirstEnergy regarding what happened and why. Investigators from the U.S.-Canada task force faulted FirstEnergy for employing "inadequately trained" control-room operators. They also concluded FirstEnergy had poor internal communications, lousy tree-trimming practices, unreliable computer systems, and that it employed a weaker voltage standard that put its system closer to the edge. According to the task force, the utility made assumptions about summer 2003 conditions that were unrealistically rosy.

FirstEnergy said it has fixed its computer problems and has beefed up its control-room staffing and transmission analysis. But the company hasn't acted on some other issues. "We have a factual disagreement" with the report, says Charles E. Jones, senior vice president of energy delivery at FirstEnergy.

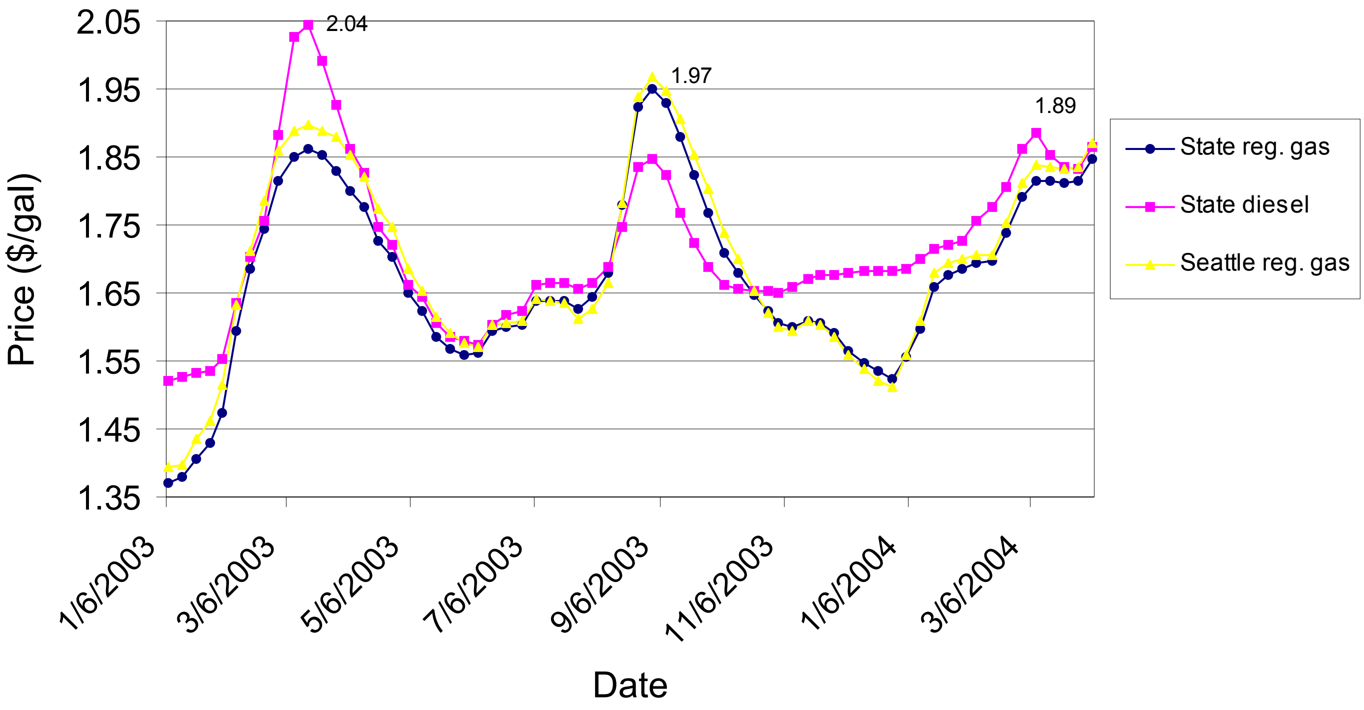
There's evidence that FirstEnergy ignored a neighbor's repeated warning of potential trouble. FirstEnergy was warned that Cleveland could experience extreme voltage problems if certain combinations of outages at critical facilities occurred. The briefings, conducted by FirstEnergy's neighboring utility, American Electric Power Co. of Columbus, Ohio, took place in January and May 2003 and were described by both AEP and the U.S.-Canada report. Voltage disruption in the Cleveland area was a major factor in the blackout.

Yet FirstEnergy's Mr. Jones said that his engineers have no recollection of those meetings, nor could they find the presentation AEP said it had shared. "We've hunted everywhere," he said. "We have beaten the bushes to try to find this report. We went to AEP and NERC. Nobody has given it to us." Later, FirstEnergy changed its position, saying it no longer disputed that the meetings happened; it instead said it is still waiting for underlying data from AEP.

To boost accountability, the blackout report said North America's reliability standards must be made mandatory. It also said some standards should be reconsidered. For example, FirstEnergy's transmission operators were certified and its summer planning was in compliance with existing standards. "There were no action items that ECAR had ordered us to do where we sat back and said, 'nah, we're not going to do it,' " said Mr. Jones

Gasoline and diesel prices continue to rise after OPEC announces production cuts. Prices are 5 to 10 cents below the record levels attained in 2003.

Fig. 1: WA State Gasoline and Diesel Prices: Jan. 03 - Apr. 04



Visit the CTED Energy Policy Website to view the new publication: Gasoline Fuel Price Primer.
http://www.cted.wa.gov/DesktopDefault.aspx?TabId=440

Wednesday April 21, 2004

Weekly Energy Status Report

1. Northwest Power Pool Status (WA, OR, ID, MT, WY, UT, No. NV, BC, AB)

- Power Pool peak load (Tuesday, 4/20): 42,195 MW
- Reserve margins were within comfortable ranges for Northwest Power Pool utilities.

2. Electricity, Petroleum and Natural Gas Prices

• Weekly Range at Mid-C:	$39.5- 42.3 per MWh, Ave. = $41.7
• Approximate change from previous week	$+1.5 per MWh
• "Normal" price range, before 5/00	$20-$40 per MWh
• Petroleum, West Texas Intermediate:	$37.60 per barrel (year ago: $37.75)
• Seattle gasoline price (4/20)	$1.996 per gallon (year ago $1.84),
• Natural gas, Sumas Hub:	$4.94 per million British Thermal Units (year ago $4.48)
• Approximate change from last week.	Oil: +1.11 $ per barrel; Nat. gas: -0.07 $ per MMBtu

3. California Electricity Situation

- <u>CA ISO Alert Status</u>
  - A stage 1 alert, due to an unexpected heat wave, was declared on Mar. 31, 2004.
  - 20 minute outage in So. Calif. on March 8, 2004 due to operator error.
  - A stage 1 alert (7% reserve margin) was declared on May 28, 2003.
  - Most recent rotating blackouts: Tuesday, May 8, 2001
- Energy News Headlines from around the Nation
  - California's power supply limited, report says (Press-Enterprise, Apr. 15)
  - BPA's buyouts meet agency goal, but at a huge cost (Oregonian Apr. 11)
  - California to set auto emission regulations (Seattle PI, Apr. 20)

4. River and Snowpack Information (Updated: Apr. 6, 2004)

- Observed February stream flow at The Dalles: 81.8% of average,
- Observed March precipitation above The Dalles: 69% of average,
- Observed snow pack, early March: 91% of average,
- Estimated Jan.-July runoff at The Dalles: 83.6 MAF, 78% of normal,
- Federal hydropower generation in March: 7,111 aMW, 1995-2002 average: 9,624 aMW.

5. Energy Conservation Achievement (Updated: Feb. 11, 2004)

- **State Agencies:** From Oct thru Dec 2003 electrical usage was 9 % less and natural gas usage was 21.3% less compared to the same period in 2000.

6. Power Exchanged: (Updated: Apr. 20, 2004)

- Average flow of power during the last 30 days
  - California (exported to) 1,796 MW
  - Canada (exported to) 1,089 MW
  - Net power export: 2,885 MW

California's Power Supply Limited, Report Says

Press-Enterprise, Apr. 15

Californians are likely to avoid rolling blackouts this summer. But the buffer of energy reserves preventing a repeat of the summer of 2001 is growing slim. The economy is picking up steam, and old power plants are shutting down faster than new plants are being built.

Those are some of the conclusions reached by the Independent System Operator, the agency responsible for planning and operating a reliable electric system for the state.

"We don't have a forecast that there will be blackouts," Jim Detmers, the ISO's vice president of grid operations, said by phone Thursday. "We are cautiously optimistic we will be able to meet peak demand."

Among the unknowns, Detmers said, is whether a long hot spell throughout the West could limit imports of electricity from surrounding states.

A widely circulated draft of the ISO's annual summer report that will be issued today in final form raises some concerns about the summer ahead but far more worries about a trend that could create a statewide shortage by 2006.

The report forecasts that California's demand for electricity will reach a record high this summer and peak at a level 3.5 percent higher than last summer.

The rise in electricity consumption is attributed to growth of the California Gross Product, an increase in exports, decreased conservation and increases in employment and housing construction.

Also, the draft report said 873 fewer megawatts of electricity generation capacity will be available during peak demand this summer than last because of mothballed facilities and a downturn in generation development. It faults the limited capabilities of California's transmission system to import power from other states or to transport electricity from existing power plants to where it is needed.

The ISO said in the draft report that as much as 480 to 1,500 megawatts of power capable of being produced by Southern California power plants will not be able to reach consumers because of transmission congestion.

Gary Ackerman, executive director of the Western Power Trading Forum, representing buyers and sellers of power, is less optimistic than the ISO about what the summer holds.

"The roll of the dice is now the weather," Ackerman said. "I think we are going to have to be prepared for stage alerts by the ISO and possibly limited rolling brownouts or even blackouts."

Severin Borenstein, director of the University of California Energy Institute, said by phone that the ISO prefers to have a power capacity reserve that is at least 7 percent above the highest projected demand. Instead, this summer the reserve is 5 percent to 6 percent, he said.

Borenstein said it is also "a little disquieting" that an early snowmelt in the Northwest could reduce hydroelectric production on which California relies.

Carl Wood, a Riverside resident and member of the Public Utilities Commission, said by phone that the difficulty of getting plants constructed to meet future demand illustrates that California is now caught in a dysfunctional limbo between deregulation and regulation.

Wood said that once more, the utilities have been made legally responsible for having enough capacity to serve their customers.

But he said utilities seeking to fulfill that obligation "are still dependent to a considerable degree upon resources that are in the marketplace that aren't owned or controlled by the utilities."

Before deregulation, he said, Southern California Edison and other investor-owned utilities would continue operating old and inefficient generators in order to have a back-up power supply available during peak demand periods. By contrast, he said, independent power producers have no incentive to keep a money- losing plant in operation.

Ackerman and Peter Cartwright, president and chief executive of Calpine, a San Jose-based power-plant owner and operator, said private companies are prevented from building large power plants unless they can get long-term contracts from utilities that will satisfy lenders.

Bonneville Power Agency's Buyouts Meet Energy Goal, but at a Huge Cost

The Oregonian, Portland, Ore. - April 11, 2004

Michael Lynch, an ambitious Chicago industrialist, arrived in this gritty river town in February 2001, the new owner of the aluminum smelter that for 60 years had been a mainstay of the Cowlitz County, Wash., economy.

Lynch immediately closed the plant, throwing more than 900 employees out of work. His company filed for bankruptcy two years later, and creditors who accused him of dishonesty and incompetence ousted him from control of the company last July.

Lynch's foray into Pacific Northwest aluminum was made possible by the Portland-based Bonneville Power Administration. For shutting his company down and letting Bonneville sell the energy it would have used, his company received $226 million from the resulting sales.

The region's four other aluminum companies cut similar deals with Bonneville, a Portland-based federal power marketing agency, during the power crisis of 2000-2001. By the time the money stopped flowing last October, the aluminum makers' total take had reached more than $1.8 billion.

The program accomplished Bonneville's primary goal -- reducing regional energy use by more than 15 percent at a time of drought and power shortages. But, the payments came at a time when the BPA faced its own financial crisis and raised its rates by 45 percent, resulting in painful, double-digit rate increases for many Northwest households and businesses. And the deals ultimately played out in some unexpected ways.

The electricity buyback program was plagued by these problems:

While the BPA said at the time that the payments were intended to ensure the stability of the aluminum plants, eight of the Northwest's 10 smelters remain closed, three of the five companies are bankrupt and thousands of jobs appear to be permanently eliminated.

Not a single aluminum company has yet used the millions of dollars it received to build or find alternative power sources that would end its reliance on Bonneville, another key justification for the BPA payments.

Kaiser Aluminum and Chemical, which operated the smelter in Mead, Wash., ignored BPA pleas that it share a portion of the proceeds of the energy payments with workers and pocketed the entire $467.3 million it received. The company went bankrupt in 2002.

Six months after he bought the Longview smelter and began receiving the BPA bounty, Lynch's empire of aluminum factories also crashed into bankruptcy amid charges of fraudulent accounting. A bankruptcy trustee said he is investigating charges Lynch improperly used millions of the dollars of BPA proceeds.

The story of how those payments came together illustrates the complex demands on Bonneville, which markets power generated by federally owned dams in the Northwest, to equitably distribute the region's electricity. It also shows the political clout a handful of aluminum companies have enjoyed with the agency.

BPA officials say the deals with the aluminum companies reduced power demand by 15 percent or more at a time the region faced a critical shortage. Paying the companies to shut down saved the BPA hundreds of millions of dollars, because it otherwise would have had to buy expensive electricity on the open market and sell it to the aluminum companies at a tenth of the cost, officials say. Plus, at BPA insistence, a good deal of the money went to workers displaced by the smelter shutdowns.

"I don't regret any of the decisions," said Steven Wright, BPA chief executive. "This power crisis was unprecedented and unanticipated. I think we did a good job under the circumstances."

Other industry sources say the program was abused. "Some of the companies got greedy, they took advantage of the situation," said Randy Hardy, a former BPA administrator.

The windfall payments have their roots in the sweeping deregulation of the power industry of the mid-1990s. Deregulation brought alternative sources of wholesale power to the market that by 1995 were cheaper than Bonneville's.

Alarmed that it could lose aluminum companies as customers, the BPA agreed to write new, more beneficial contracts for the 1996-2001 time period. Among other things, those contracts, which drew lawsuits from some Bonneville customers, gave the companies the unprecedented option to shut down and resell their electricity.

The concessions seemed relatively innocuous until the power crisis of 2000-2001. Without warning in May 2000, wholesale power prices soared from $25 per megawatt-hour to more than $250 per megawatt-hour.

The crisis contributed to the Northwest's descent into a stubborn recession.

Most electricity users suffered big rate increases. Bonneville, which reports to the Department of Energy, raised rates to public utilities it serves by 45 percent in October 2001. But the region's five electricity-gobbling aluminum companies reaped eye-popping nine-figure paydays, in most cases $350 million or more. Longview Aluminum received the smallest allotment -- $226 million.

Bonneville officials knew the arrangement with the aluminum companies could pose a political problem, Wright said. The shutdowns would put thousands of aluminum company employees out of work. Plus, the specter of private companies enjoying fat paydays while most other Northwest power users suffered could prove unpopular.

So the agency put several conditions on the money.

Bonneville inserted language into its contracts with most of the aluminum companies listing the acceptable uses of the money. The agency expected the companies to assist workers displaced by the shutdowns and to pay local taxes and any penalties for canceling raw supply contracts.

And, perhaps most important, the companies were to use the money to build their own power plants or otherwise secure alternative energy contracts that would end their reliance on the agency.

Brett Wilcox, founder and CEO of Golden Northwest, was the first to reach agreement with Bonneville in December 2000. Agency officials hoped to make the deal a model for the rest of the companies.

As the sole Northwest-based aluminum company owner, Wilcox was more attuned to the politics inside Bonneville. He volunteered to send about $98.4 million of the $421 million his company received back to the agency, though he was not contractually bound to do so. He also spent another $106.1 million to pay workers and suppliers and meet other shutdown costs.

Wilcox says he used another $175 million to build a complex of windmills in Sherman County and to develop two gas-fired plants in Goldendale, Wash., and Clatskanie. He's since sold off the wind farm and his efforts to get the new gas-fired plants built have been hamstrung by the company's deteriorating financial position.

Wilcox took Golden into Chapter 11 bankruptcy in December, 2003. He says he still intends to get the Clatskanie power plant built and also to eventually restart the company's smelters in The Dalles and Goldendale.

Alcoa and Columbia Falls also sent a good deal of the money they received to their workers, though how much is unclear. Alcoa is still paying about 390 workers of its idled Wenatchee, Wash., smelter, though that money is coming not from its $350 million in Bonneville proceeds but from $62 million Alcoa is getting in power sales arranged by the Chelan Public Utility District in Washington.

Alcoa and Glencore, Columbia Falls' parent company, refused to account for how they spent the Bonneville money. Bonneville also declined to divulge details of the two companies' expenditures.

The deals with Kaiser and Longview, both of which like Golden have since sought bankruptcy protection, have proved the most controversial.

Kaiser refused to comply with almost all of Bonneville's conditions. It ruled out a power plant as a financial loser and also was the only recipient of the power money that declined to share any of the $467.3 million it received in energy proceeds with its workers.

Bonneville officials were livid. "BPA is disappointed that Kaiser appears more interested in retaining windfall profits at the expense of Northwest ratepayers rather than negotiate a mutually beneficial agreement," the agency stated in a Jan. 31, 2001, internal memo.

The United Steel Workers of America, which represented most of the 1,100 Kaiser employees at Mead, demanded that Bonneville audit Kaiser's use of the money.

Kaiser wouldn't budge.

Company spokesman Scott Lamb said Kaiser complied with the terms of its workers' union contract, supplementing its displaced workers' unemployment checks for two years so that they received compensation equal to 70 percent of their salaries. "We continued to pay Northwest smelter folks according to the contract," Lamb said.

Kaiser says it spent the bulk of the power money on various capital expenditures, including the rebuilding of its Gramercy alumina refining plant in Louisiana, which had been damaged in an explosion.

On Feb. 12, 2002, less than a year after enjoying its enormous payday, Kaiser filed for Chapter 11 bankruptcy. It announced this month that it will sell its Mead smelter, near Spokane, for $7.4 million, less than 2 percent of what it got in power payments.

At first, Lynch played good cop to Kaiser's bad cop.

The former Chicago real estate broker-turned aluminum magnate promised to comply with any and all of Bonneville's requirements, vowing to, among other things, end the smelter's reliance on BPA electricity by 2006.

Bonneville eagerly introduced Lynch at a March 1, 2001, news conference. Wright said ratepayers, smelter employees, even Columbia River salmon would benefit from the Longview shutdown.

The biggest winner was Lynch.

BPA insiders and Randy Hardy, the former BPA administrator who consulted for Lynch, say he could not have bought the smelter without the Bonneville payments. He used between $140 million and $150 million of the energy sale proceeds to repay a lender who provided the initial cash for his smelter purchase. He also sent about $32 million to the plant's more than 900 displaced workers, leaving him at least $44 million.

Lynch says that money went toward expenses such as professional fees, plant maintenance and an unsuccessful attempt to build a power plant.

Lynch pledged to employees and their union that he would restart the facility by April 2002. He told Bonneville he had hired a subsidiary of Enron to launch development of the power plant.

Lynch didn't have much time to savor his new ownership of the Longview smelter.

In August 2001, unpaid creditors forced another of Lynch's aluminum companies in Scottsboro, Ala., into bankruptcy. Days later, Lynch took another company, McCook Metals, into bankruptcy after the company was accused by its lead lender of accounting fraud.

Dominic Forte, a former partner of Lynch's, sued him in August 2002, alleging Lynch had stripped the assets of Longview for his personal gain.

In March 2003, Longview Aluminum became the third Lynch company to go bankrupt. The company reported total assets of $3.08 million against debts of more than $65 million.

Creditors were aghast. They wondered publicly how Longview, which had never operated a day under Lynch's tenure, could have blown through the more than $30 million in energy proceeds they reckoned the company had remaining from the initial $226 million after payments to his lenders and workers.

"The fact that the debtor has disposed of more than $32 million in the two-year period from the date of Longview's purchase . . . is not only disturbing, but also unfathomable," wrote Lawrence Landgraff, an attorney for the Pension Benefit Guaranty Corp.

The Steel Workers sued Lynch and Longview and asked Bonneville once again to audit Lynch's use of the power money. U.S. Bankruptcy Judge Eugene Wedoff ousted Lynch in July 2003, and appointed a trustee to take control of the estate. Wedoff had earlier done the same in the McCook bankruptcy.

William Brandt, a Chicago lawyer appointed as Longview's bankruptcy trustee, said he intends to review Lynch's use of about $20 million of the Bonneville proceeds.

Among other things, Brandt is tracking between $7 million and $9 million Longview sent to a phalanx of lawyers, accountants, public relations firms and engineers during Lynch's short tenure. Brandt said it's unclear whether the professionals' work benefited Longview or Lynch personally or another Lynch company.

Lynch admits he spent $7 million or more on professionals. But the expenditures were appropriate and proper, he said. To preserve Longview, he argues, he also had to try to save McCook. Some of the money also went to lawyers pursuing Lynch's claims against Alcoa, which he claims conspired with his former law firm and others to put him out of business.

"I want to be known as a straight-up, ethical businessman," Lynch said. "I've talked to Brandt, I've told him "bring it on, file a lawsuit." I'm willing to talk in front of a congressional committee or a federal judge."

BPA officials were unfamiliar with the claims against Lynch. They said their reviews of Longview's use of the money, as well as Kaiser's, were "truncated" by the company's bankruptcies.

In any case, Bonneville had limited recourse under the contracts. The agreements gave Bonneville the right to withhold electricity if the companies refused to comply with the agency's terms. But that proved an empty threat to Kaiser and Longview, which have said they will never again operate their smelters.

Steve Oliver, a BPA vice president, said it remains unclear whether Kaiser and Longview complied with the terms of their power agreements. The agency has determined that Alcoa, Columbia Falls and Golden Northwest have spent their share of the power jackpot appropriately, he said.

Oliver said the BPA deserves credit for trying to restrict the companies use of the money. "We really pushed our legal and contractual rights to the limit to create these benefits for ratepayers, employees and to keep these companies viable in the region," he said.

Still, BPA spokesman Ed Mosey acknowledged that the program bore some undesired results. "You had a guy like Lynch who lined his pockets largely due to serendipity."

Today, Bonneville is waiting in line with the three bankrupt aluminum companies' other creditors in hopes of collecting nearly $140 million the agency claims it is owed.

Calif. to set auto emission regulations

By DON THOMPSON, Seattle PI, Apr. 20.

Automakers have the technology to meet strong global warming pollution standards, and existing technology could be used to significantly reduce emissions, according to a nonprofit group of citizens and scientists.

The report by the Union of Concerned Scientists was released a day before the California Air Resources Board was scheduled to hold its first meeting Tuesday on regulations to trim vehicle emissions, as required by a 2002 law. A draft regulation is expected next month.

The group said a new fleet using technology available in some vehicles could reduce global warming pollution about 20 percent while saving state drivers more than $2 billion.

The report envisions a new fleet combining the best technology from existing automobiles: Honda's variable valve lift and timing advances; continuously variable transmissions from the Saturn Ion, Nissan Murano, and the Mini Cooper; and cylinder deactivation now available through DaimlerChrysler and General Motors.

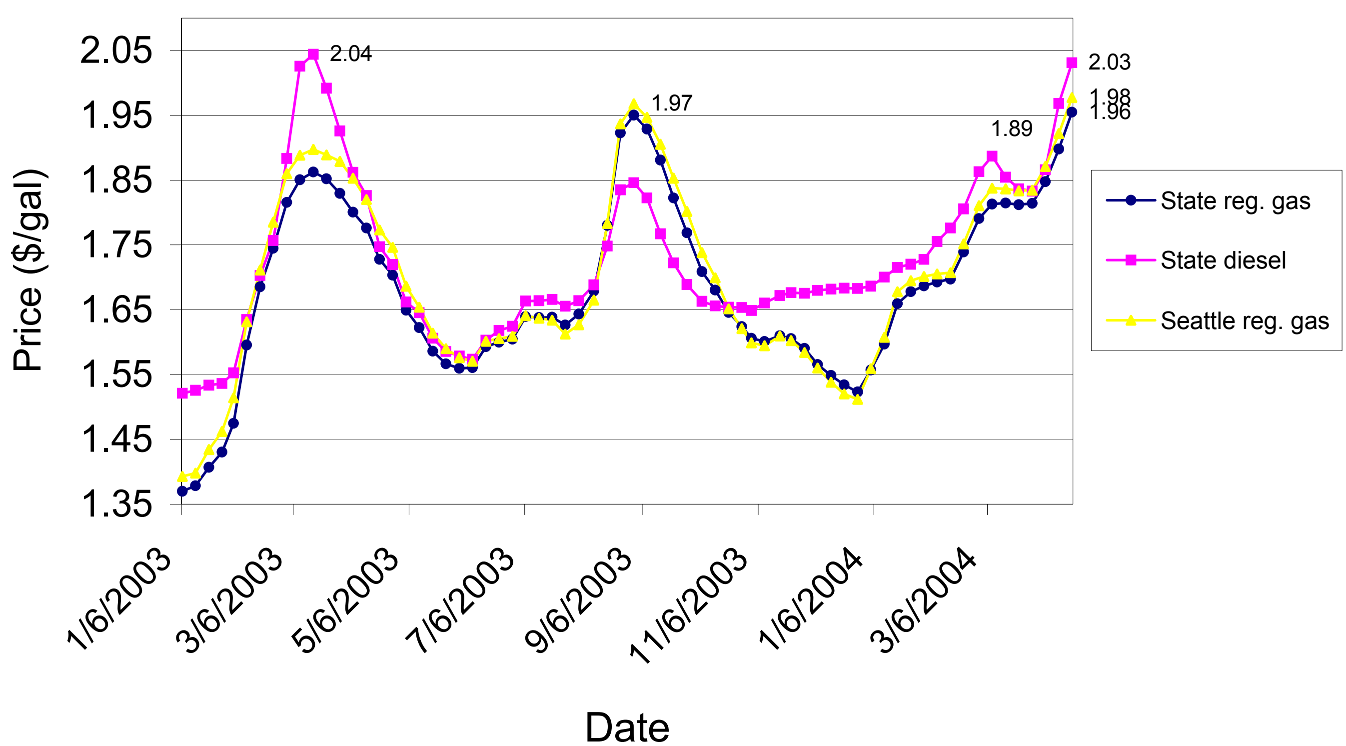
"Automakers have the technology now to meet strong global warming pollution standards, just as they have met past standards for other air pollutants or safety," the group said.

A spokesman for the Alliance of Automobile Manufacturers, Charles Territo, said that the standards should be set nationally and consumers have largely rejected the technology the auto industry has spent billions of dollars to invent.

Less than 2 percent of sales are vehicles that get more than 30 miles per gallon, he said, while 52 percent of California sales last year were higher polluting light trucks.

Gasoline and diesel prices are now equal to record levels reached last spring and summer.

Fig. 1: WA State Gasoline and Diesel Prices: Jan. 03 - Apr. 04



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Wednesday April 28, 2004

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  - State reaches accord with Dynegy, NRG (LA Times, Apr. 27)
  - Davis firm reports ethanol advance (Sac. Bee Apr. 27)
  - US gas prices up another 3 cents (Seattle PI, Apr. 26)
  - Greenspan sees long term effect in oil, gas costs (WSJ, Apr. 28)

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  - Canada (exported to) 946 MW
  - Net power export: 2,814 MW

State Reaches Accord With Dynegy, NRG

■The firms' joint venture was accused of abuses during the energy crisis. The $281.5-million deal needs regulators' OK.

By Jonathan Peterson and Elizabeth Douglass, LA Times, April 27

California officials have reached a $281.5-million settlement with **Dynegy** Inc. and **NRG Energy** Inc. over allegations of widespread abuses during the state's energy crisis, Atty. Gen. Bill Lockyer said late Monday.

The state had accused a joint venture owned by the two firms, known as West Coast Power, of withholding power and conducting **Enron** Corp.-style trading schemes to push up the price of electricity during 2000 and 2001.

Much of the settlement money would benefit ratepayers, but it was unclear exactly how much would trickle down to customers and in what form — in bill credits, by offsetting other utility charges or through some other means.

The California Public Utilities Commission and the Federal Energy Regulatory Commission must approve the accord. If they do, state regulators will drop their financial claim against West Coast Power and FERC will end its investigation into the firm's conduct during the energy crisis.

But the role Dynegy played in the crisis remains of interest to the attorney general's office. It is looking into allegations that the Houston-based company engaged in price gouging and made unjust profit from its California operations.

"This settlement provides Californians with a measure of justice from one of the most rapacious pirates of the energy crisis," Lockyer said in a statement. "We will continue, in the courts, to seek full justice for ratepayers and full accountability for Dynegy."

Said Bruce A. Williamson, chief executive of Dynegy: "We are pleased to reach this agreement with the parties involved, and we appreciate their efforts to resolve the issues from the past so that we all may continue to focus on providing safe and reliable electricity to the citizens of California."

Officials at Minneapolis-based NRG couldn't be reached for comment.

The settlement underscores the complexity of the ongoing energy disputes. Like other power suppliers, West Coast Power had claimed that California utilities still owed large sums for electricity they received during the energy crisis, when power prices were skyrocketing. The utilities and other California officials have claimed that, instead, power suppliers owe them large refunds for overcharges arising from unlawful market manipulation.

The largest part of Monday's agreement would defuse the dispute over money that the suppliers have claimed they were owed by utilities.

According to Lockyer, the overall $281.5-million figure includes at least $256.4 million in monetary relief for ratepayers. It would be delivered by **Pacific Gas & Electric** Co., **Southern California Edison** Co., **San Diego Gas & Electric** Co. and the California Department of Water Resources.

PG&E, for example, plans to apply its $82.3-million share of the settlement toward the $2.2-billion bill that customers are paying over time as part of the utility's bankruptcy reorganization plan. The $34.4-million refund to SoCal Edison and the $16.5-million refund to SDG&E could have an indirect effect on customer rates by offsetting other utility costs that would normally be borne by ratepayers.

Given the many questions, one consumer activist expressed guarded support for the deal.

"If it's in the range of $250 million, that is serious money," said Mike Florio, senior attorney at the Utility Reform Network, based in San Francisco.

At the same time, he added: "What the California parties gave up is what they might have gotten by pursuing court appeals."

PUC President Michael Peevey said the commission would closely review the agreement's terms. But he added, "I'm pleased that this settlement appears to be another step in repairing some of the damage done to the state during the energy crisis."

A FERC spokesman declined to comment on the specifics of the deal. It was in California's interest to resolve the energy crisis disputes, the spokesman said, "to create the sort of climate we need for renewed investment in the California marketplace."

One piece of the overall agreement, involving a $3-million settlement between the companies and FERC, was reported in January.

Earlier this month, the Justice Department brought the first criminal charges against a company for misconduct during the market meltdown, accusing **Reliant Energy Services** of unlawfully forcing up prices in June 2000.

State officials have completed seven settlements stemming from the energy crisis totaling $2.37 billion, Lockyer said. The settlements include a $1.8-billion deal reached in November 2002 with power supplier **Williams** Cos.

Davis firm reports ethanol advance

But cheaper output of the gas additive may not be felt at the pump.

By Dale Kasler , Sac Bee, April 27

With gasoline prices at record or near-record levels, a Davis biotech company said Monday it has achieved a breakthrough in reducing the cost of ethanol, a key additive in the gas sold in California and elsewhere.

But the progress announced by Novozymes won't bring any quick relief to motorists. It'll be a few years before cheaper ethanol would be commercially available - and an oil-industry analyst says cheaper ethanol might not make much of a dent in gas prices anyway. Novozymes, a Danish biotech company working on industrial enzymes, said most of the ethanol research is being performed at its Davis-based Novozymes Biotech Inc. subsidiary.

The subsidiary, working with the National Renewable Energy Laboratory, has been researching methods of turning biomass - or crop residue - into ethanol.

Most ethanol now comes from corn. The laboratory is part of the U.S. Department of Energy, which is financing the research.

Despite the breakthrough, a commercial product is "a couple of years away," said Glenn Nedwin, president of the Davis subsidiary.

Cheaper ethanol "would be cool" but wouldn't solve all of California's gas problems, said David Hackett, an oil-industry consultant in Irvine.

Under a federal mandate to clean the air, California refiners have been using ethanol as a substitute forMTBE, an additive that's been banned for environmental reasons. Because it takes up less volume than MTBE, ethanol tightens gas supplies and adds to the cost.

Even if ethanol becomes cheaper, the "lost volume" problem will continue to put upward pressure on the price of gas blended with ethanol, Hackett said. California officials have been badgering the U.S. government for years for a waiver so the state can do without ethanol.

AAA said Monday that U.S. gas prices are at an all-time high, an average of $1.81 a gallon for self-serve regular. The California average is about $2.18, or about three cents shy of the record. Sacramentans are paying an average of $2.08, or about nine cents below the record from March 2003.

U.S. gasoline prices up another 3 cents

By ROBERT JABLON, Seattle PI April 26, 2004

U.S. gasoline prices climbed another 3 cents per gallon in the past two weeks on the strength of high crude oil prices, tight capacity and soaring demand, an analyst said Sunday.

The nationwide average for all gasoline grades, including taxes, was nearly $1.86 per gallon on Friday, up 3.07 cents from April 9, according to the Lundberg Survey of 8,000 stations nationwide.

The average price "has broken all-time record highs for two months straight," although it remained about $1 a gallon lower than the peak price of March 1981 when adjusted for inflation, Trilby Lundberg said.

Since Dec. 19, the average gas price has risen 34.55 cents, she added.

The latest increase was prompted by crude oil prices that have topped $36 per barrel coupled with OPEC production cuts and a growth in crude oil demand, chiefly in the United States and China, Lundberg said.

She said the U.S. market prices are affected by growing gasoline demand - despite the higher prices - thanks to an improving economy, a tight refining capacity, and new federal rules for formulating less-polluting gasoline, which add to the cost and make it harder to import foreign supplies that don't meet the new specifications.

Lundberg said it was impossible to know whether prices will continue to increase but "it seems more likely than not" as the peak summer travel season approaches.

The national weighted average price of gasoline, including taxes, at self-serve pumps Friday was about $1.83 for regular, $1.92 for mid-grade and $2.01 for premium.

Overall, California continued to have the highest average prices even though the average price for regular dipped a dime per gallon in the past two weeks.

There was a "sizable gap" between California supply and demand but Lundberg said that has shrunk as refineries, which were shut down, for maintenance and retooling to meet new formulation requirements came back online.

The average California prices were $2.12 per gallon for regular, $2.23 for mid-grade and $2.33 for premium, Lundberg said.

San Diego had the highest U.S. average price for self-serve regular, at $2.17 per gallon, down more than 5 cents in two weeks.

Greenspan Sees Long-Term Effect In Oil, Gas Costs

WSJ, Apr. 28

Federal Reserve Chairman Alan Greenspan said the recent surge in oil and gas prices appears to be a long-lasting phenomenon, and would probably alter business-investment decisions.

If the rise in long-term prices is sustained, "it could alter the magnitude of and manner in which the United States consumes energy," Mr. Greenspan said. He didn't specify what changes to expect, but he noted that when prices rose in the 1970s, it nudged Americans to buy cars with better fuel-efficiency.

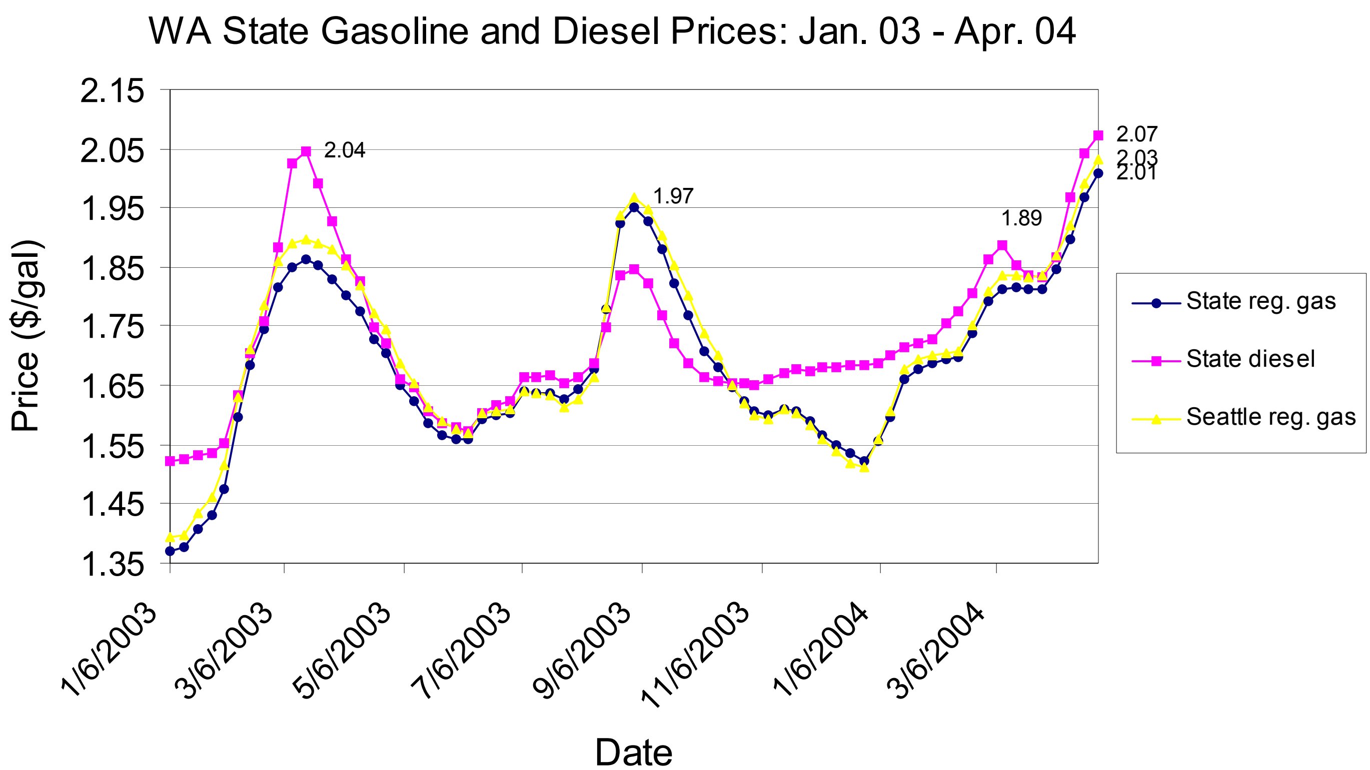
Industry observers also have predicted that higher natural-gas prices in the U.S. will prompt some gas-intensive industries, such as petrochemicals and fertilizer manufacturing, to move facilities from the U.S. to parts of the world where gas is less expensive. Mr. Greenspan did say changes would be less dramatic than in the 1970s because the economy uses half as much energy per inflation-adjusted dollar of output.

The central-bank chief didn't comment on how high energy prices may affect the near-term outlook for economic growth, inflation or interest rates. He focused not on current oil and gas prices, but on the price on contracts for delivery six years in the future -- long enough to incorporate forecasts of new supply. The distant-future price of oil has risen to $27 a barrel now from $16 to $18 a barrel in 1999, he noted, while that of gas has risen to $5 per million British thermal units from $2.50 in 1999.

Oil prices have risen, he said, because of "fears of long-term supply disruptions in the Middle East." The Fed chief attributed higher gas prices to the growth in demand for gas owing to its reputation for being less polluting than alternatives such as coal, while supply has been constrained by the inability to import significant gas supplies other than from Canada. He repeated his recommendation that the U.S. expand facilities for handling imported liquefied natural gas.

Wednesday April 28, 2004

Gasoline and diesel prices are at record levels (expressed in nominal dollars). Prices began falling in the California market last week, and appear to be reaching a plateau in Washington State. However, gasoline demand is running well ahead of last years pace, exceeding the initial forecasts made by energy analysts. This may indicate that gasoline and diesel prices will rise further once the summer driving season begins.



Visit the CTED Energy Policy Website to view the new publication: Gasoline Fuel Price Primer.

http://www.cted.wa.gov/DesktopDefault.aspx?TabId=440

Wednesday May 5, 2004

Weekly Energy Status Report

1. Northwest Power Pool Status (WA, OR, ID, MT, WY, UT, No. NV, BC, AB)

- Power Pool peak load (Tuesday, 5/4): 41,821 MW
- Reserve margins were within comfortable ranges for Northwest Power Pool utilities.

2. Electricity, Petroleum and Natural Gas Prices

• Weekly Range at Mid-C:	$43.8- 50.0 per MWh, Ave. = $47.5
• Approximate change from previous week	$+6.0 per MWh
• "Normal" price range, before 5/00	$20-$40 per MWh
• Petroleum, West Texas Intermediate:	$38.98 per barrel (year ago: $37.75)
• Seattle gasoline price (5/4)	$2.09 per gallon (year ago $1.76),
• Natural gas, Sumas Hub:	$5.04 per million British Thermal Units (year ago $4.48)
• Approximate change from last week.	Oil: +1.0 $ per barrel; Nat. gas: -0.20 $ per MMBtu

3. California Electricity Situation

- CA ISO Alert Status
  - A transmission emergency was declared May 3 in So. Cal.: Voluntary curtailment was requested
  - A stage 1 alert, due to an unexpected heat wave, was declared on Mar. 31, 2004.
  - 20 minute outage in So. Cal. on March 8, 2004 due to operator error.
  - Most recent rotating blackouts: Tuesday, May 8, 2001

- Energy News Headlines from around the Nation
  - NW Power Council pushes energy savings to meet regions' needs (Tri-City Herald, May 3)
  - Washington not likely to return to days of low electric rates (Tri-City Herald, May 3)
  - Higher oil prices are damaging economy, study finds (NYT, May 4)
  - Average US vehicle weighs 4000 pounds: fuel economy suffers (NYT, May 3)

4. River and Snowpack Information (Updated: Apr. 6, 2004)

- Observed February stream flow at The Dalles: 81.8% of average,
- Observed March precipitation above The Dalles: 69% of average,
- Observed snow pack, early March: 91% of average,
- Estimated Jan.-July runoff at The Dalles: 83 MAF, 77% of normal,
- Federal hydropower generation in March: 7,111 aMW, 1995-2002 average: 9,624 aMW.

5. Energy Conservation Achievement (Updated: Feb. 11, 2004)

- **State Agencies:** From Oct thru Dec 2003 electrical usage was 9 % less and natural gas usage was 21.3% less compared to the same period in 2000.

6. Power Exchanged: (Updated: May 4, 2004)

- Average flow of power during the last 30 days
  - California (exported to) 1,990 MW
  - Canada (exported to) 712 MW
  - Net power export: 2,702 MW

Pacific Northwest Power Council Pushes Energy Saving to Meet Region's Needs

Tri-City Herald, May 3, 2004

An analysis by the Northwest Power and Conservation Council indicates half the region's new energy needs could be met through 2025 by comparatively cheap conservation measures.

But whether consumers, businesses and utilities will pony up the $350 million to $400 million a year in up-front costs to make that happen is another matter.

For that amount, total potential savings could hit 2,800 megawatts over the next two decades -- a little more than what was saved through conservation efforts utilized during the past two.

"It is a big number," said Margie Gardner, executive director of the Northwest Energy Efficiency Alliance. "It's a lot of power plants."

The savings would be obtained through upgrades in homes and businesses to lighting, air conditioning and heating systems plus various equipment replacements and other measures.

"A lot of these measures were not available before," said Charlie Grist, a senior analyst for the council, a federal agency charged with balancing fish and power needs in Oregon, Washington, Idaho and Montana.

Over time, the various measures would pencil out nicely, costing most ratepayers less than half what it would cost them to buy the same amount of electricity from their utility.

The average cost of 2.4 cents per kilowatt hour cited by the council also compares favorably with electricity generated at conventional power plants fueled by coal, natural gas or wind, sources which are primarily being looked to by power planners.

Of course, the cost of conserving energy isn't paid monthly but in up-front payments to buy equipment or renovate operations, making it a hard sell in a tougher economy.

"It just has to make economic sense," said Ken Canon, director of the Industrial Customers of Northwest Utilities. "It's always been one of the aspects of conservation that is most challenging."

He questions whether it's even possible to produce accurate numbers estimating how much energy has been saved by implementing various conservation measures over the past 20 years or projecting future gains. That's because the region's industrial base -- home to the largest consumers of electricity -- can change so much over time.

"Just count up how many wood product plants that have closed in the last 20 years," Canon said. "Conservation is always something we strive for but since it is hard to pin down, it is sometimes oversold."

Homeowner use of compact fluorescent light bulbs is the measure holding the single greatest energy saving potential at more than 500 megawatts, according to the council report. It also is among the cheapest ways to save energy.

Other measures listed include using new appliances such as water heaters, clothes washers and refrigerators, plus efficiencies made in various lighting and irrigation systems.

Home weatherization, a staple of the conservation push in the 1980s, barely registers.

Washington State Not Likely to Return to Days of Low Electric Rates

Tri-City Herald, Kennewick, Wash. - May 4, 2004

Average electricity rates in Washington fell by just 1 percent last year, an indicator the effects of the West Coast energy crisis are lingering.

"They haven't been fully digested yet," said Dick Watson, power planning director at the Northwest Power and Conservation Council, an agency responsible for balancing regional fish and power priorities.

Worse, there's little expectation rates will ever return to the low levels Northwest consumers once enjoyed.

Preliminary figures released recently by the U.S. Energy Information Administration indicate the average electric rate in Washington dropped to 5.72 cents per kilowatt hour last year from 5.8 cents in 2002. That boosted Washington's rank among states with the cheapest electric rates from 14th to ninth.

But that's a far cry from the state's superior status before the onset of the crisis in 2000, which didn't begin slamming many Northwest ratepayers until October 2001. Retail rates, on average, are more than 40 percent above 1999.

Kentucky had the nation's cheapest rates on average last year. Idaho was third, Oregon 17th and Montana 18th.

Washington's residential sector, which had the third-cheapest rates compared with other states last year, and commercial sector, ranked 12th, saw virtually no change over 2002. The industrial sector saw its average rates fall by about 6 percent, boosting its nationwide rank from 28th to 16th.

But if there was improvement, it sure didn't seem like it, said Ken Canon, executive director of the Industrial Customers of Northwest Utilities. Though energy costs are just part of the economic equation for industry, many are simply waiting it out in the short term, hoping rates will ease.

"People understand we're swallowing the California energy crisis probably for the next year or two," Canon said. "People are hanging on for something better."

Otherwise, "I question whether we'll have a robust industrial base if these rates continue," he said.

Though other regions as a whole still may have higher industrial rates in the long term, Canon said he is finding more individual East Coast utilities with cheaper rates than those in the Northwest, making them more competitive.

"There are a lot more than there used to be," he said.

It's widely expected Northwest rates ultimately will slide, particularly after some high-priced power purchase contracts owned by the Bonneville Power Administration expire in the fall of 2006. But in an interview last month, BPA Administrator Steve Wright said he doesn't expect the agency, responsible for selling almost half the kilowatts consumed in the Northwest, to be able to roll back rates anywhere close to former levels.

"I'd be surprised if we get all the way back," said Tony Usibelli, assistant director for energy at the state Office of Trade and Economic Development. "In my opinion, it's a pipe dream."

Though the virtual disappearance of the aluminum industry frees up extra BPA power generated cheaply at federal dams on the Snake and Columbia rivers, new power needs ultimately will have to be met by higher-priced alternatives.

Power plants fueled by natural gas had been the preferred alternative. But gas prices have risen as western Canadian gas wells have become less productive. A new pipeline to the Midwest also brought new competition.

Imported liquefied natural gas is believed to be the wave of the future, but more terminals to convert it to a gas would need to be built, Watson said. Few communities have embraced the idea.

And, of course, how low utilities can set rates also is affected by how much water runs through turbines at hydroelectric dams. That determines whether utilities are buying extra supplies on the market or selling surplus.

With the latest forecast projecting January through July runoff at The Dalles Dam to be just 76 percent of normal, 2003 is near certain to be the Northwest's fifth straight below-average water year.

Higher Oil Prices Are Damaging Global Economy, a Study Shows

By JEFF GERTH**,** NYT May 4, 2004

Higher oil prices have hurt the global economy and could further hamper growth, bolster inflation and increase unemployment over the next two years if prices stay at their current levels, according to a study by the International Energy Agency released on Monday.

"World G.D.P. growth may have been at least half a percentage point higher in the last two or three years," the study found, "had prices remained at mid-2001 levels."

If oil prices stay at their current level of more than $35 a barrel, more than $10 a barrel above their level of three years ago, "world G.D.P. would be at least half of 1 percent lower - equivalent to $255 billion - in the year following a $10 oil price increase."

In New York, crude oil for June delivery rose 83 cents, or 2.2 percent, to $38.21 a barrel on Monday.

The United States, which still produces about 40 percent of the oil it consumes, would suffer less than other developed countries: the report forecasts a drop in G.D.P. of three-tenths of a percentage point. Still, the agency found, continued higher prices would cause unemployment in the United States to "worsen significantly in the short term."

For developed nations as a whole, the effect of higher oil prices would include a rise of one-tenth of a percentage point in the unemployment rate, a rise of five-tenths of a point in consumer prices for 2004 and a reduction in economic growth of four-tenths of a point for the next two years.

The agency, an independent body founded 30 years ago by major oil- consuming nations in the aftermath of oil price shocks, collaborated on the study with its sister organization, the Organization for Economic Cooperation and Development and the International Monetary Fund.

The report attributed higher oil prices, in part, to "supply-management policies" by the Organization of the Petroleum Exporting Countries, but it did not further explore the causes. At its most recent meeting, one month ago, OPEC members, led by Saudi Arabia, decided to restrain production further.

Oil production data is opaque and unverifiable. One reason, energy experts say, is because OPEC quotas, based partly on production, are frequently exceeded by member countries.

In the weeks since OPEC's decision, the trend of one production indicator, oil tanker movements, has shifted downward, according to Oil Tanker Intelligence Service, "providing clear evidence that OPEC has indeed reduced exports." The service is a joint venture of Lloyd's Marine Intelligence Unit, based in London, and the PIRA Energy Group, which is based in New York.

The federal Energy Information Administration reports that oil imports into the United States from Saudi Arabia, the world's biggest exporter, dropped significantly in the first two months of 2004, the latest reporting period.

Saudi Arabia, according to the administration's data, has been America's largest source of imported oil over the last few years, but this year it has been replaced by Canada.

Saudi supplies of crude oil in January and February dropped by almost 20 percent compared with the period in 2003.

OPEC's production cuts, Saudi Arabia's dealings with Washington and higher gasoline prices are now a staple on the presidential campaign trail. These issues and the accompanying debate were on display here last week in a conference on United States-Saudi relations sponsored by the Center for Strategic and International Studies and the U.S.-Saudi Arabian Business Council.

Saudi Arabia's oil minister, Ali al-Naimi, told the gathering that "prices are being driven by other factors" beyond supply and demand, including fears of instability, hedge fund investments in the commodities markets and refining bottlenecks, especially in the United States.

Mr. Naimi said it was wrong to blame OPEC for higher prices and he offered to "invest in two new refineries" to address gasoline demand in the United States.

But Kyle McSlarrow, the deputy secretary of energy, said the "price of crude is driving the cost of gasoline." In a similar vein, Guy F. Caruso, the administrator of the Energy Information Administration, told the conference that OPEC production cuts ranked higher as a cause for increased gas prices than tightness in the United States refining market.

Mr. McSlarrow also played down the importance of shortages in refining capacity, noting that current refinery utilization is less than 90 percent.

Saudi Aramco, the state-owned oil company, is already involved in the American refining market: it jointly owns four refineries in partnership with the Royal/Dutch Shell Group. The joint venture recently agreed to sell one of those refineries, in Delaware.

Mr. Naimi was asked by a reporter at the conference to explain his offer to invest in new refineries in light of Aramco's decision to shed the Delaware refinery. He said to "talk to Aramco," explaining that while he is the chairman of the company's board he is not an Aramco executive.

Saudi Aramco's president and chief executive, Abdallah S. Jumah, said in an interview that the Delaware refinery was sold because "it was a good deal."

David Harrington, a Shell spokesman, said the sale was consistent with the joint venture's effort to strike a "proper balance between refining and marketing assets."

Average U.S. Car Is Tipping Scales at 4,000 Pounds: Fuel Economy Suffers.

By DANNY HAKIM, NYT, May 5, 2004

Detroit was recently ranked as the nation's most obese city by Men's Fitness magazine. Perhaps it is no surprise, then, that the Motor City's chief product is also losing the battle of the bulge.

The average new car or light-duty truck sold in the 2003 model year tipped the scales at 4,021 pounds, breaking the two-ton barrier for the first time since the mid-1970's, according to a report released by the Environmental Protection Agency last week.

The fattening of the nation's automobiles is a principal reason that average fuel economy has stopped improving and the nation's consumption of crude oil has been swelling: all else being equal, moving more weight takes more energy. Add in the additional pollutants and greenhouse gases released by burning more fuel, and it is not surprising that the upsizing trend is condemned by environmental groups.

But ranged against them in an increasingly bitter debate are industry lobbyists and conservative groups who argue that girth is good, for crashworthiness and because people want more space and power, though Honda is a notable dissenter in the industry.

At the center of the debate is the Bush administration's proposed rewriting of national fuel economy regulations. Though work on the plan is still in its early stages, one important aspect of it could lead automakers to make their vehicles even heavier on average. Environmentalists are distressed by the plan, but it has not been embraced by the auto industry, either.

In recent months, the National Highway Traffic Safety Administration has been flooded with nearly 50,000 letters and detailed comments about the plan. Many have come from organizations with an interest in the outcome - automakers, lobbyists, environmental and consumer groups - but the majority have been from individuals, some of them angered by increasingly tanklike vehicles and others by the claims of industry lobbying groups that S.U.V.'s will somehow be regulated out of existence.

And there are other motivations. "One of the things that triggers asthma is air pollution, and vehicular emissions are a significant source," said Dr. Ronald Saff, an asthma specialist in Tallahassee, Fla., concerned about rising asthma rates. Dr. Saff, 45, wrote a letter asking the agency "to make S.U.V.'s safer for families and the environment."

But Carroll Boyle, a 65-year-old retired educator from Manchester, N.H., wrote that tougher regulations "may force people into vehicles that are smaller, less powerful, and not as safe as our current options." She added, "In New Hampshire we have weather that requires an S.U.V. many days a year."

The E.P.A.'s weight statistics show that the average weight of a 2003 car or light-duty truck, like a pickup, sport utility, van or minivan, was heavier than in any model year since 1976, when the average peaked at 4,079 pounds. Just five years later, after the oil shocks of the 1970's, the average had fallen by more than 20 percent, to 3,202 pounds. The figures take into account the sales volumes of different models.

Average fuel economy peaked at 22.1 miles to the gallon in the late 1980's, according to the agency, but has eroded since then to 20.7 miles for the 2003 model year.

The agency expects the 2004 model year to finish with an average weight of 4,066 pounds.

New noncommercial vehicles are actually even heavier than the statistics show, because the largest vehicles sold to consumers, including Hummers and Ford Excursions, are not classed as light-duty, so they are not covered by fuel economy rules or counted in average weight calculations. They are also exempt from many safety standards and crash-test requirements.

Government studies say these giant vehicles are increasing the overall number of deaths in accidents, mainly because of the threat they pose to people in cars they hit in collisions. The administration's plan does suggest that manufacturers be pressed to slim down the heaviest of the heavyweights, like the Hummer.

Though new vehicles are back to weighing what they did in the 1970's, they are obviously very different in shape, in part because of the fuel economy rules introduced then. Automakers must meet average mileage targets, now set at 20.7 miles to the gallon for light-duty trucks and 27.5 for passenger cars. By scrapping station wagons and large sedans in favor of minivans and S.U.V.'s, manufacturers have greatly increased the share of their total sales subject to the lower truck standard, and they have fought to preserve the two-tier system.

Federal regulators say safety has suffered as a result, both because S.U.V.'s and larger pickup trucks are more prone to roll over than cars are, and because they do more serious damage to vehicles they hit.

Traffic deaths in the United States rose to 43,220 last year, the most since 1990. Before the S.U.V. boom, the country had the world's lowest highway death rate, taking miles driven into account, but it now ranks behind at least eight other developed nations, including Canada, Australia, Britain and Sweden. Lower rates of seat belt use and other factors play a part, but much of the difference stems from the composition of the national vehicle fleet, researchers say.

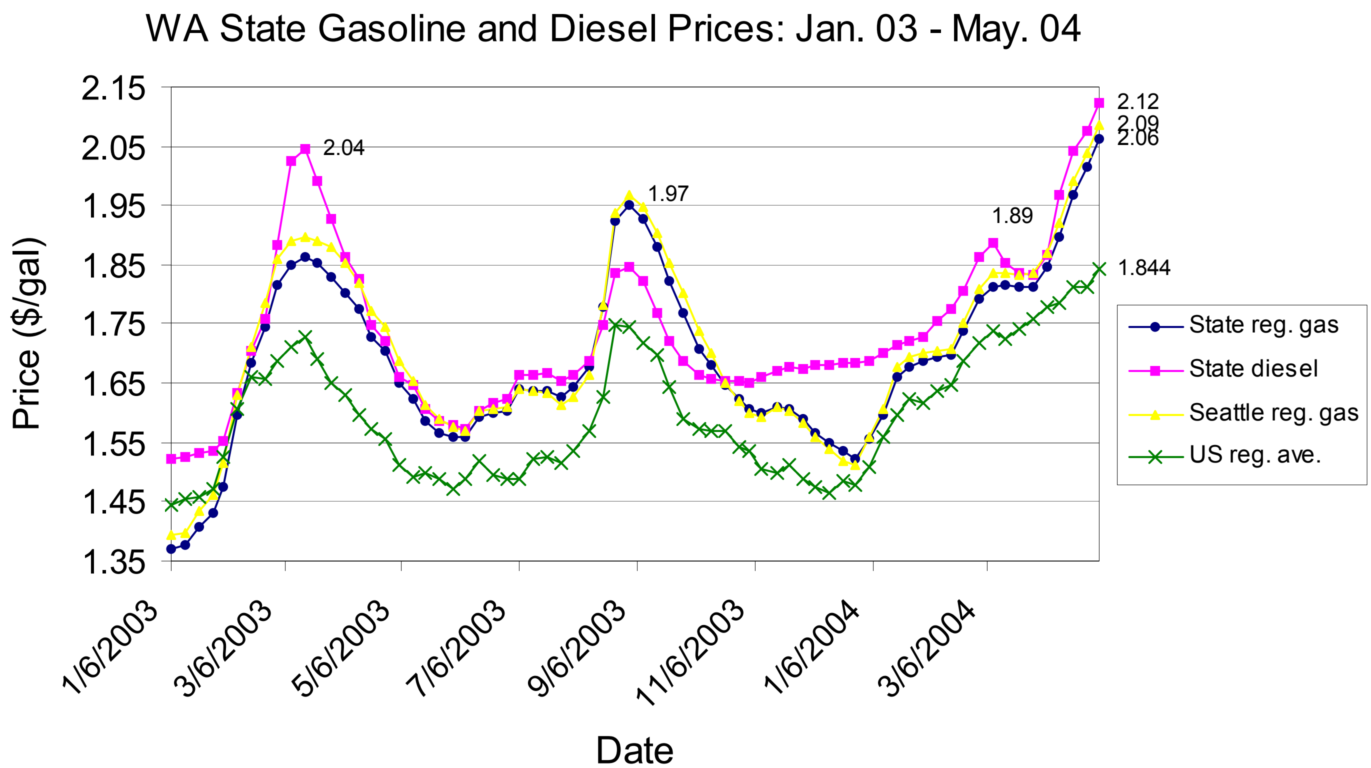
The Bush administration contends that most sport utilities should be given room to grow in any new fuel economy system, citing a government study that said lightening any but the largest vehicles would do more harm than good. Thus, one of the administration's leading proposals is to divide the light-duty truck category into classes, with more stringent requirements for heavyweights.

Most major automakers have reacted cautiously, especially to the idea of broadening the system to cover the largest S.U.V.'s.

"Studies show that making vehicles lighter has an adverse effect on safety," said Eron Shosteck, a spokesman for the Alliance of Automobile Manufacturers, which lobbies on behalf of General Motors, Ford Motor, DaimlerChrysler, Toyota and others. "If all vehicles were made heavier, it would have a positive impact on safety," Mr. Shosteck said.

But Honda, which makes some of the most fuel-efficient vehicles, said its own research found that dimensions, design and materials often made more difference than weight. Honda cited government statistics showing that midsize cars have lower death rates than sport utilities, and that smaller S.U.V.'s do better than midsize S.U.V.'s.

Gasoline and diesel prices reach new record levels (expressed in nominal dollars) and are about 20 cents/gallon higher than the national average. Low inventories of crude oil and fuel products, high demand around the world, limited refining capacity, and the specter of terrorism in the Middle East are driving prices higher.



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Wednesday May 12, 2004

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  - Canada (exported to) 632 MW
  - Net power export: 2,851 MW

Debate Over California's Energy Supplies Heating Up Again

■Governor, lawmakers and business are weighing in on how best to revamp the power system.

By Marc Lifsher, LA Times Staff Writer

Temperatures soar to record highs. Power grid operators declare emergencies. And politicians argue over energy policy. It must be springtime in California. The two-part question on the table is basically the same as it's been since the energy crisis of 2000-01:

Should the state return to the days when heavily regulated utilities generated and sold power at government-controlled rates? Or have the painful lessons learned since 2000 given California an opportunity to take another stab at energy deregulation — this time without the rolling blackouts and skyrocketing electric bills?

At this point, the smart money is on Gov. Arnold Schwarzenegger, who has spent his first six months in office checking off campaign promises to slash car taxes, refinance a ballooning budget deficit and overhaul the state's workers' compensation system.

That winning streak bodes well for Schwarzenegger's still-sketchy plan to give California what might be termed "deregulation light" — a combination of free-market strategies and limited regulation that the governor says will provide the state with cheap and reliable power while making California "the job creation machine it once was."

"Now, at least, there's a willingness" to fix the system, said Philip Huyck, a Connecticut-based energy financing consultant. "The question is whether or not he gets it right."

It won't be easy. The governor's plan hinges on creating more free-market competition in buying and selling electricity in California — a prospect dreaded by consumer groups and gun-shy politicians. They complain that the governor's program sounds suspiciously like the now-suspended 1996 utility deregulation scheme that contributed to the recall of Democratic Gov. Gray Davis, put **PG&E** Corp.'s Pacific Gas & Electric Co. into bankruptcy proceedings and stuck California with the third-highest electricity costs of any state.

"We had 40% rate increases, rolling blackouts, billions of dollars in customer bailouts of two utilities and spent tens of billions of dollars on [electricity] contracts to get us through the crisis," said Bob Finkelstein, executive director of the Utility Reform Network in San Francisco. "There's nothing in our previous experience in deregulating the market that makes it attractive for consumers."

Business remains excited about some aspects of deregulation, especially proposals to allow large power customers — such as large manufacturers and big-box retail stores — to bypass utilities and buy power directly from independent electricity generators.

"We're still pushing for what we were pushing for back then," namely increased competition and lower energy prices, said Dorothy Rothrock, a vice president of the California Manufacturers and Technology Assn. in Sacramento.

Business leaders are worried by forecasts that the state could suffer outages this summer — and face the prospect of another full-blown power crisis as soon as 2006.

There's already been one supply-related blackout this year, and the operator of the state's power transmission grid declared an emergency Tuesday when temperatures soared across the state. The spike in consumption prompted the chairman of the Federal Energy Regulatory Commission to worry out loud that a combination of high temperatures and low water-power supplies could cause havoc in the West Coast electricity network this summer.

This spring's debate over California's energy future began in earnest last month when Schwarzenegger jumped into the fray. The governor is pursuing a two-front strategy.

To promote free-market competition in buying and selling electricity, he has asked the Public Utilities Commission to quickly issue rules to revive the state's wholesale electricity market by allowing utilities to sign long-term, competitively bid contracts. That, the thinking goes, should protect ratepayers from price spikes and give Wall Street investors the confidence to lend billions of dollars for power plant construction.

In addition, Schwarzenegger has telegraphed to lawmakers that he supports efforts to let large consumers buy power on the free market.

Dealing with the Legislature may prove to be the bigger challenge. In the Assembly, a phalanx of lobbyists from **Edison International** utility Southern California Edison Co. is pushing a bill that Assembly Speaker Fabian Nuñez (D-Los Angeles) says would bring "certainty into the market, not just for the big industrial customers but for the small and residential customers."

The bill could become a vehicle for a comprehensive deal like the one the governor recently brokered on workers' compensation insurance. But it's opposed by both consumer advocates and most large business groups.

The measure, which passed its first committee hearing April 20 with bipartisan backing, would allow SCE and the state's two other investor-owned utilities — PG&E and **Sempra Energy** utility San Diego Gas & Electric Co. — to build their own power plants and recover construction and financing costs, plus a profit, through rates approved by the PUC. That would reverse a key element of the 1996 deregulation law, which required the utilities to sell off most of their nonnuclear and non-water generating facilities.

For SCE, the bill's key provision would give utilities some assurance that the PUC, after approving construction of a power plant, wouldn't fiddle with the electric rates that investors were counting on to finance the project.

"Once we get approval … to build a facility, we don't want a subsequent commission to change its mind" and undermine financing for an $800-million power plant, SCE President Bob Foster said.

Nuñez's bill, now before the Assembly Appropriations Committee, also requires utilities to develop energy strategies that include renewable sources such as wind and solar power, and to buy power from independent generating companies.

For consumer groups, the bill's most controversial element is its limited nod to businesses' demand for the right to shop around for electricity. The Nuñez-SCE proposal would let a small number of big energy consumers (those with peak usage of more than 500 kilowatts — enough to power about 400 homes) to buy their power from independent producers rather than the regulated utilities.

"We feel that large users of power should be able to cut their own deals and take on that market risk," said A. Brad Wilkins, vice president of Tamco Steel, a Rancho Cucamonga mini-mill that spends $30 million a year on electricity, more than it budgets for salaries, taxes and benefits for all 320 employees.

But letting "the biggest corporations in the state cherry-pick the cheapest power … forces small ratepayers and small businesses to pay for the most expensive power," said Jamie Court of the Foundation for Taxpayer and Consumer Rights in Santa Monica.

Many businesses, such as the members of the Silicon Valley Manufacturing Group and independent power generators like San Jose-based **Calpine** Corp., say the Nuñez bill doesn't go far enough toward opening up the energy market to competition. They favor a competing proposal, AB 428, now stalled in the Senate.

The bill would make it easier for more companies to buy non-utility electricity but would prevent large users from "gaming" the market by jumping in and out of the power grid.

Schwarzenegger hasn't endorsed either bill and insists that much of the revamping of the state's power system can be done through the PUC, not the Legislature. The governor's mediating skills should help him find "a balance among the different constituencies," said Huyck, the energy consultant.

He predicted that a Schwarzenegger-brokered deal could give some generation to utilities and some to the independents, bolster conservation and renewable energy production, and provide limited access to the free market for large consumers. Such a combination would probably be a product of both legislative action and PUC regulation.

In the end, the governor's penchant for action and his sense of urgency should result in "contracts being signed and [power plants] getting built," said V. John White, a veteran lobbyist with the Center for Energy Efficiency and Renewable Technologies.

"He has the ability to command attention and set agendas," White said. "There's always the threat that he'll shake things up."

Saudi Oil Minister Calls for OPEC to Ease Oil Prices

NYT, May 10, 2004

Leading OPEC producer Saudi Arabia on Monday called on the oil cartel to raise supply limits by at least 1.5 million barrels per day (bpd), just over 6 percent, to prevent high crude prices from derailing global economic growth.

Saudi Oil Minister Ali al-Naimi issued a statement saying that an increase in output by the Organization of the Petroleum Exporting Countries was ``essential'' to balance global supply and demand after prices spiked to $40 a barrel last week.

``We ... do not want to see prices rise to the level that they negatively affect the growth of the international economy or the demand for oil," said Naimi. ``It is apparent that demand, especially that of Asia, has and will continue to increase in the second half of this year."

``We in the kingdom estimate the required increase of the ceiling should not be less than one and a half million barrels per day," Naimi's statement said.

Oil prices on Friday touched $40 for the first time in the 13 years since the 1990-1991 Gulf crisis that was sparked by Iraq's invasion of Kuwait. Monday's Saudi statement hit prices hard, with U.S. crude losing as much as $1.65 a barrel. The New York Mercantile Exchange crude oil contract later clawed back some losses to end the day one dollar down at $38.93 a barrel.

Naimi said the Saudi proposal would be discussed when oil producing countries meet consumer nations at the International Energy Forum in Amsterdam on May 22-24. Policy will be finalized at an OPEC meeting scheduled for June 3 in Beirut. An OPEC delegate said that, if necessary, the increase could be as much as 2 million barrels daily.

Riyadh already has backing from its Gulf neighbors the United Arab Emirates and Kuwait, which both opposed production cuts earlier this year. And crucially No. 2 producer Iran said on Saturday that, while it did not want to pander to U.S. demands on OPEC to pump more, it would not oppose an increase should such a move be proposed.

DEMAND BOOM

European Central Bank President Jean-Claude Trichet applauded Saudi Arabia's move. ``We welcome the recent decisions," Trichet said.

Analysts said extra crude will be needed to prevent oil prices running out of control as world demand rises in the second half of the year, led by China's economic boom and strong U.S. growth.

``Forty dollars a barrel set off alarm bells not only in consuming nations but in the capitals of major oil producers, particularly those with spare capacity and large proven reserves like Saudi Arabia who don't want to damage long-term oil demand," said Gary Ross, chief executive of New York's PIRA Energy consultancy.

``This is a move they have to make. We see demand for OPEC's oil rising by 2 million barrels a day in the third quarter and by another 2 million barrels a day in the fourth quarter."

Dealers will be calculating how much actual extra crude OPEC is likely to provide should it raise official quotas by the proposed 1.5 million barrels daily to 25 million bpd.

Latest independent estimates are that 10 cartel members bound by quotas, excluding Iraq, already pumped some two million bpd beyond official limits in April.

Naimi blamed ``unwarranted" fears of supply disruptions and heavy speculation on oil by investment funds for high prices.

Traders have been worried about attacks on Middle East oil facilities following killings by Islamic militants at a Saudi petrochemical plant a week ago and a suicide bombing attempt in late April on Iraq's Basra terminal.

The Saudi minister said the concerns had arisen ``at a time when only the kingdom and probably two or three other countries have spare production capacity."

But Algerian Oil Minister Chakib Khelil said Middle East tensions would prevent prices falling. ``It doesn't matter whether we increase or not, it's not going to have an impact on prices,'' Khelil said.

Running On Empty

Michael D. Tusiani, Washington Post, April 28, 2004

The price of gasoline rose over the winter, but that was just the beginning of an inevitable upward trend. Summer will give us an even better feel for things to come. Complaints by motorists and accusations by politicians will not avoid the unavoidable: Most Americans simply cannot have all the gasoline they want much longer.

We already burn more of this precious but cheap commodity than U.S. refineries can make. For the past two years, imports climbing toward 1 million barrels per day have kept supply in step with consumption. But within three years, we'll be extracting as much from foreign suppliers as they can spare. At that point, demand cannot continue to grow at the current pace. It cannot exceed supply.

When demand hits the ceiling, some of us, or all of us, will use less. Government may impose a rationing scheme (which seems unlikely) or price will allocate supply. Those who can afford it will get as much as they want. Others will not.

For some reason, America's politicians and special-interest groups never mention the limits of oil companies' capacity for making gasoline. The domestic refining industry has not grown significantly for years, and it will probably shrink in years to come. Plant emissions rules, community hostility and a series of money-wasting betrayals by regulators discourage expansion. So does the burden of paying for equipment to make fuels that comply with clean air rules for a marketplace so competitive that investments do not earn any money. Worse yet, these conditions encourage closure of marginal facilities. Many consumers say they won't cry for the big, rich oil companies. If so, they'll cry for themselves in the gasoline line -- or leave the keys in their SUVs, hoping they'll be stolen.

America burned 8.93 million barrels of gasoline a day in 2003, 8.14 million barrels of it produced by domestic refineries. If U.S. refineries operated at peak gasoline output despite seasonal swings in motor fuel sales, they might sustain 8.7 to 8.8 million barrels a day of production, assuming their equipment could take the stress. In years to come, regulations, among them the measures that force ethanol into the motor fuel supply, will reduce the amount of gasoline refiners can make.

Meanwhile, if nothing changes our living patterns and taste for large, inefficient vehicles, demand will continue to rise. We buy more thirsty SUVs than thrifty sedans. Over the past five years, that preference has driven gasoline consumption upward an average of 1.6 percent per year. Such a pace will push demand to 9.2 million barrels a day in 2005 and 9.4 million in 2006.

Most foreign refineries are unable to make gasoline that is suitable for sale in the United States. They simply do not have the equipment to turn out a product that meets our specifications. The latest elevation of our standards -- which will quickly reduce the sulfur content of our motor fuel to practically zero -- severely restricts the amount of gasoline we can import from such traditional suppliers as Venezuela. Asia, the only place on Earth where the refining industry still expands rapidly, does not install the expensive deep-desulfurization equipment required to meet our standards. Today only one overseas refining system, Western Europe's, can increase its output of sulfur-free gasoline. But Europe, like the United States, will not significantly increase its capacity to produce gas. European oil companies have neither the capability nor the incentive to expand their gasoline-making hardware. In three years or less, if U.S. gasoline demand grows as expected, they will produce to their maximum, provided we pay enough for their commodity. Then our real trouble will begin.

Let me stress an essential point. We must not pretend that a supply increase can save us. Even if public opposition and economic impediments to refinery expansion should disappear today, the oil industry could not install new equipment fast enough to prevent a shortage two or three years from now. No company can order the major process hardware to make gasoline -- pipe stills, catalytic crackers, alkylation units, cokers and reformers -- off the shelf. It takes three years to build and install those big, costly, complex units. Add another year for design, engineering, bidding and funding. In the real world, securing operating permits would entail anywhere from a year to as long as it takes for one to lose hope.

Meanwhile, a few companies are taking risks that will soon pay handsome rewards. They are systematically acquiring any fairly priced or underpriced U.S. refining assets that come on the market, of which there have been a number in recent years. Almost every time there is a merger, the Federal Trade Commission mandates the disposal of a refinery or two. When a wayward natural gas company has to raise cash to remain solvent, it sells refineries. A few companies with vision are always eager to buy.

Why do the consumer protection lobby and the environmental pressure groups say nothing about this real and urgent problem? They must see a gasoline shortage coming. Do they want it to occur? One of their favorite legislative goals, higher mileage standards for automobiles and light trucks, could soften the collision between gasoline demand and supply.

In one-way or another, consumption is going to stop growing. The only thing we can control is how hard we hit the supply barrier. We can strike it head-on or at an angle. An early warning could allow people of moderate means to buy efficient vehicles instead of gas-guzzlers in time to make a difference in their mobility and personal finances. Whether they have to pay $3 per gallon or carry their ration books to the filling station, they'll thank whoever gave them timely advice.

Our leaders, who have debated energy policy for years without acknowledging any concern for a potential gasoline shortage, must now demonstrate courage and vision. They must admit that the nation's gasoline problem has no practical supply-side answer and lead us toward reducing consumption.

OPEC Powerless to Stem Oil Price Surge?

By REUTERS, NYT, May 12.

Oil prices burst to new 13-year highs above $40 a barrel on Wednesday on concern that OPEC may not pump enough oil to meet rapidly accelerating world oil demand.

A fresh fall in U.S. gasoline stocks reinforced concern that U.S. refiners will not be able to make enough of new gasoline grades for peak summer holiday driving demand.

U.S. light crude (CLc1) hit a peak at $40.55 a barrel, just 60 cents off the $41.15 all-time high for New York crude futures, reached in October 1990 after Iraq invaded Kuwait. London Brent crude (LCOc1) was up 36 cents at $37.72 a barrel.

Importing nations are increasingly worried about the economic fallout of higher energy costs. The price spike has come during the second quarter, when world oil demand is at its lowest seasonal ebb, raising concerns about prices later in the year as demand rises again.

Tight U.S. fuel inventories have driven oil's long rally. The U.S. Energy Information Administration said on Wednesday gasoline stocks dropped 1.5 million barrels last week to 202.5 million, nearly 4 percent below the five-year average.

``This draw in gasoline stocks will keep this bull market alive,'' said Jim Ritterbusch of Ritterbusch and Associates in Galena, Illinois. ``Demand is just stronger than expected. We're still running more than 3.2 percent year over year.''

OPEC President Purnomo Yusgiantoro of Indonesia said on Wednesday the cartel is already pumping more than two million barrels daily in excess of official supply limits in a bid to cool world oil prices.

``We have not discouraged our members from producing more because we want to do everything we can to stabilize prices,'' Purnomo was quoted as saying in a statement released from OPEC headquarters.

The statement will underline concerns in the market about how much actual extra oil OPEC will release should it decide to lift production quotas when ministers meet on June 3 in Beirut.

Ministers are considering raising official production limits from 23.5 million bpd after Saudi Arabia proposed lifting quotas by at least 1.5 million bpd.

SPARE CAPACITY CRUNCH

The International Energy Agency, adviser on energy to 26 industrialized nations, said OPEC holds around 2.5 million bpd of spare capacity -- just a three percent cushion for the 80 million bpd world market, nearly half in Saudi Arabia.

A senior Saudi oil official told Reuters on Wednesday that the kingdom stood ready and able to boost oil output to meet global demand growth, but only after consultation with fellow OPEC exporters.

Oil prices have rocketed nearly $8, or 24 percent, since the start of the year as stronger-than-expected energy consumption among industrialized nations bolsters explosive demand growth in China. World growth forecast represents the largest absolute increase in global oil demand since 1988, the IEA said in its monthly Oil Market Report.

Supply outside OPEC is failing to meet growth expectations, despite rising volumes from Russia, raising the requirement on OPEC for extra crude, the IEA said.

``The welcome resurgence in economic activity brings to the fore the issue of securing the necessary supplies to sustain the recovery,'' the IEA's report said.

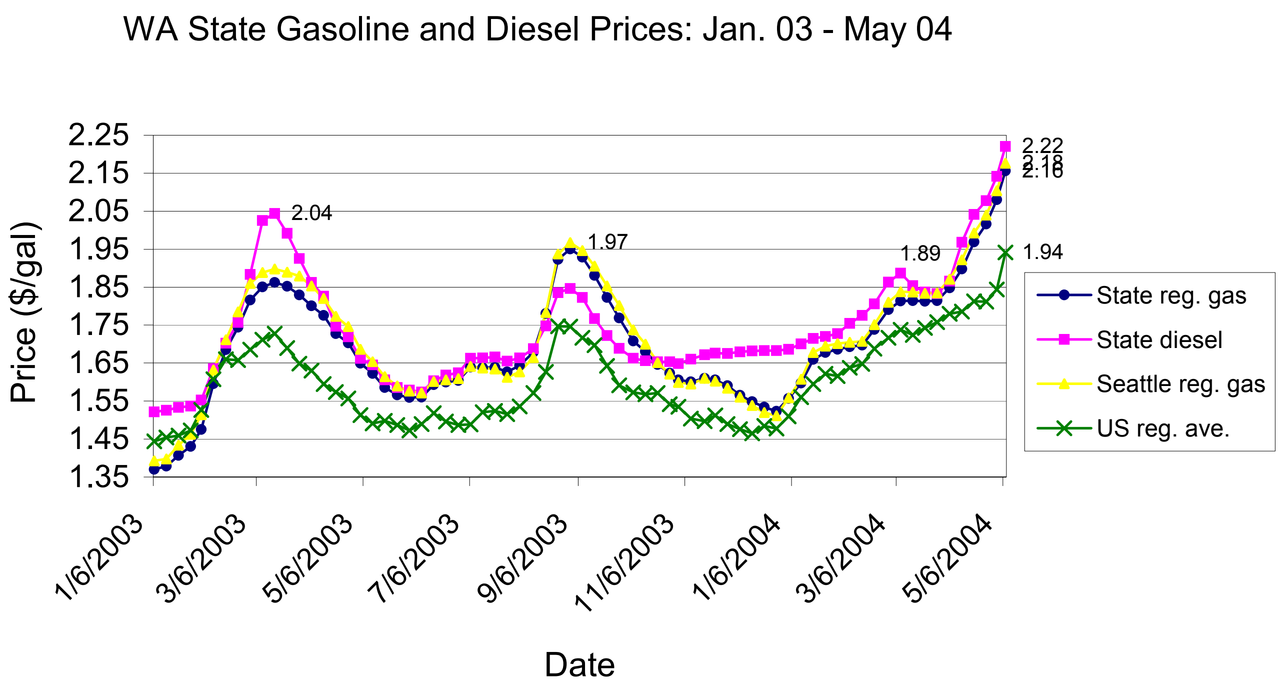
``OPEC seems to have been stung into making reassuring noises, guaranteeing supply to customers and abandoning any pretence of production cuts in line with target,'' it added.

Supply security worries from the Middle East have also fired up prices. Iraqi oil exports from the Basra Oil Terminal are still reduced to 1.1 million bpd after pipeline sabotage at the weekend.

A return to normal flows of 1.6 million has been delayed until Thursday. The weekend attack came just two weeks after suicide bombers attacked tankers at the terminals.

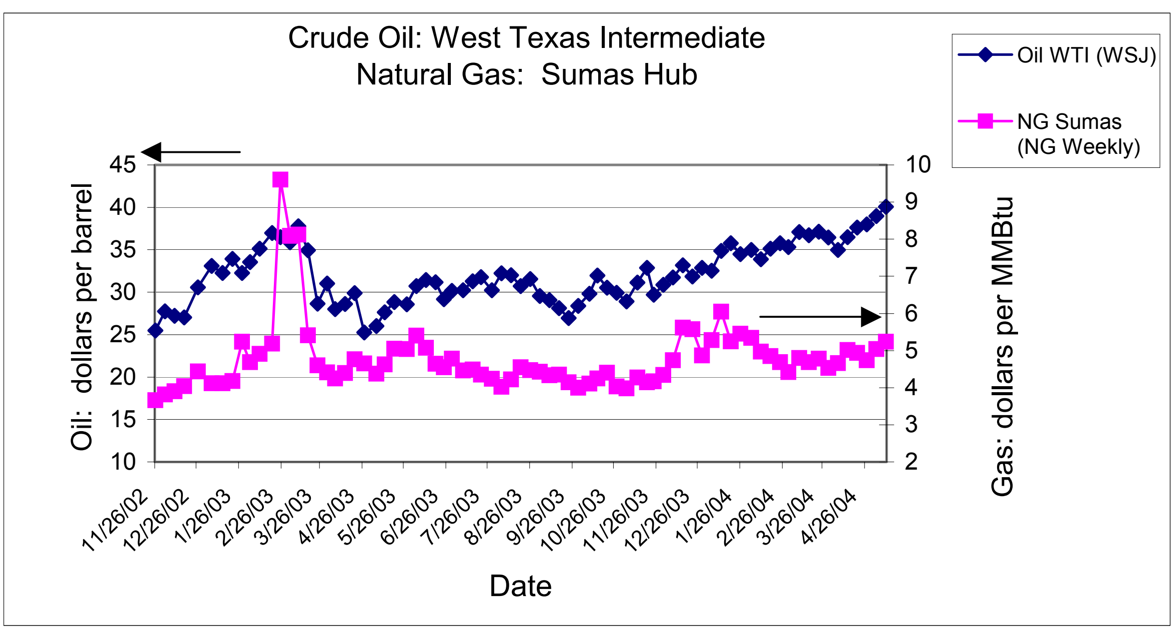
Wednesday May 12, 2004

Gasoline and diesel prices again reach new record price levels (nominal dollars) of $2.16/gal. and $2.22/gal. respectively, about 20 cents/gallon higher than the national averages. The primary reasons for the continuing fuel price escalations are: A reported a drop in gasoline and diesel inventories by the Energy Information Administration (EIA), attacks in Iraq which reduced exports by 500,000 barrels per day, high demand (up 3.5% vs. year ago), and tight refining capacity (94.5% utilization). The EIA raised its estimate of the national average summer gasoline price peak from $1.84/gal to $2.03/gal. revealing how difficult it is to predict fuel prices and availability.



Visit the CTED Energy Policy Website to view the new publication: Gasoline Fuel Price Primer.

http://www.cted.wa.gov/DesktopDefault.aspx?TabId=440



Wednesday May 18, 2004

Weekly Energy Status Report

1. Northwest Power Pool Status (WA, OR, ID, MT, WY, UT, No. NV, BC, AB)

- Power Pool peak load (Tuesday, 5/18): 41,428 MW
- Reserve margins were within comfortable ranges for Northwest Power Pool utilities.

2. Electricity, Petroleum and Natural Gas Prices

• Weekly Range at Mid-C:	$42.1- 52.3 per MWh, Ave. = $46.1
• Approximate change from previous week	$-5.5 per MWh
• "Normal" price range, before 5/00	$20-$40 per MWh
• Petroleum, West Texas Intermediate:	$41.5 per barrel (year ago: $37.75)
• Seattle gasoline price (5/18)	$2.29 per gallon (year ago $1.62),
• Natural gas, Sumas Hub:	$5.38 per million British Thermal Units (year ago $4.78)
• Approximate change from last week.	Oil: +1.08 $ per barrel; Nat. gas: +0.20 $ per MMBtu

3. California Electricity Situation

- CA ISO Alert Status
  - A transmission emergency was declared May 3 in So. Cal.: Voluntary curtailment was requested
  - A stage 1 alert, due to an unexpected heat wave, was declared on Mar. 31, 2004.
  - 20 minute outage in So. Cal. on March 8, 2004 due to operator error.
  - Most recent rotating blackouts: Tuesday, May 8, 2001

4. Energy News Headlines from around the Nation

- Oil prices surge to $42 per barrel. (NYT, May 17)
- Democrats ask Bush to release emergency oil (NYT 17, May 3)
- Electric rates to rise 3.2% (The Olympian, May 16)
- Pacific Corp indicates wind power is economically viable (UtiliPoint , May 14)

5. River and Snowpack Information (Updated: May 18, 2004)

- Observed April stream flow at The Dalles: 105% of average,
- Observed May precipitation above The Dalles: 59% of average,
- Observed snow pack, early May: 66% of average,
- Estimated Jan.-July runoff at The Dalles: 79.5 MAF, 74% of normal,
- Federal hydropower generation in April: 7,162 aMW, 1995-2002 average: 9,610 aMW.

6. Energy Conservation Achievement (Updated: Feb. 11, 2004)

- State Agencies: From Oct thru Dec 2003 electrical usage was 9 % less and natural gas usage was 21.3% less compared to the same period in 2000.

7. Power Exchanged: (Updated: May 18, 2004)

- Average flow of power during the last 30 days
  - California (exported to) 2,517 MW
  - Canada (exported to) 710 MW
  - Net power export: 3,227 MW

Oil Prices Surge Close to $42 a Barrel

By THE ASSOCIATED PRESS

NYT: May 17, 2004

Oil prices surged close to $42 a barrel Monday as markets shrugged off a Saudi proposal that OPEC raise its official output target by 6 percent.
Analysts argued that the Organization of Petroleum Exporting Countries must do more -- by adding real barrels to world supplies -- if it expects to curb the relentless rise in crude prices.

A senior OPEC delegate, speaking on condition of anonymity, said the group was so worried about overheated prices that it might consider making a larger increase in its target than Saudi Arabia initially suggested last week.

OPEC, which supplies one-third of the world's oil, plans emergency talks this weekend in Amsterdam to discuss a possible target increase of 1.5 million barrels. Because OPEC already exceeds its current target by more than this amount, analysts say such a move would only legitimize some of OPEC's overproduction and do nothing to trim prices.

``It's not that it won't be enough. It's irrelevant,'' said Leo Drollas, chief economist of the Center for Global Energy Studies in London.

Futures contracts of U.S. light crude for June delivery reached $41.85 a barrel in New York, before retreating to $41.55, up 17 cents from Friday's close. It was a new record close on the New York Mercantile Exchange. In London, July contracts of North Sea Brent reached $38.50 a barrel on the International Petroleum Exchange, but were up just 4 cents by evening at $37.90.

June gasoline futures also reached a new high Monday in Nymex trading, closing 0.69 cent higher at $1.417 per gallon. The average retail price of regular unleaded gasoline in the United States is $1.97 per gallon, according to AAA.

In other Nymex trading, June heating oil was essentially unchanged at $1.043 per gallon, while natural gas futures rose 2.3 cents to $6.424 per 1,000 cubic feet.

Pressure is building on OPEC to dip into some of its spare production capacity to boost actual output -- not just its target. Markets are stretched by unexpectedly strong demand and spooked by turmoil in Iraq and uncertainty elsewhere in the oil-rich Middle East.

The assassination Monday of the head of the Iraqi Governing Council underscored the political instability in that country, which has the second-largest proven crude reserves after Saudi Arabia. Izzadine Saleem was the second and highest-ranking member of Iraq's U.S.-appointed council to be assassinated.

The senior OPEC delegate said representatives at the group's upcoming meeting might discuss raising their target by more than 6 percent.

``There's no fixed position in terms of numbers,'' the delegate said.

Most OPEC members are cashing in on current high prices by pumping an estimated 2 million barrels above their target of 23.5 million barrels. However, if prices stay high, they could damage economic growth and weaken demand for crude. High prices also encourage non-OPEC producers such as Russia and Mexico to pump more oil of their own, worsening the risk that prices may collapse due to oversupply.

``We are very worried and very concerned about the situation in the oil market, and we know we will do what we have to bring back stability,'' the OPEC delegate said.

In spite of OPEC's efforts to micromanage oil supplies, the current robust demand for crude has caught it by surprise. Any decision to increase its production target would mark a major policy reversal. OPEC only just decided at the end of March to reduce its target by 4 percent to 23.5 million barrels.

The group had feared that seasonal demand would fall during the spring quarter, and it acted preemptively to prevent an oversupply of crude. But instead of falling, demand for oil and refined products intensified in the United States, Europe and China.

Bottlenecks at U.S. refineries, heavy speculative investment in oil futures and concerns about security in the Middle East -- including Saudi Arabia, OPEC's most powerful member -- added fuel to soaring prices. The price for a barrel of OPEC's benchmark blend of crudes has risen to $37.67, or 51 percent more than the official targeted price of $25.

Regardless of what OPEC decides to do with its production target, it should boost actual output by around 500,000 barrels, said Adam Sieminski, an oil price strategist at Deutsche Bank in London.

``That certainly won't be enough to crash prices, but it might take the upside away,'' he said.

Drollas estimates that the 10 OPEC members bound by output quotas have a combined 3.2 million barrels in spare production capacity. This excludes Iraq, which doesn't participate in the group's production agreements.

The Saudis account for most of this spare capacity.

``Saudi Arabia alone could boost production by 2 million barrels, and it doesn't take that long. But the question is, will they want to do that,'' he said. ``No one wants to go flat out.''

Democrats to Ask Bush to Release Emergency Oil

By REUTERS

NYT: May 17, 2004

Democrats plan to put more pressure on the Bush administration this week to lower U.S. gasoline prices by demanding that up to 60 million barrels of crude oil be released from the nation's emergency stockpile, a Democratic legislative aide said on Monday.

The White House has been criticized for taking crude oil off the market to fill the Strategic Petroleum Reserve even while the national retail price for gasoline rises toward $2 a gallon.

Sen. Charles Schumer of New York will lead a new push among Democrats asking the White House do something to help stabilize pump prices, an aide to the lawmaker said.

On Tuesday, Schumer will join other senators to announce a new, nonbinding resolution that calls for the administration to release 1 million barrels a day for 30 days from the emergency reserve. The resolution also proposes that the White House tap another 1 million barrels a day for a month if needed.

The United States is the world's biggest consumer of oil and uses about 20 million barrels of oil and petroleum products each day. Imports account for 12 million barrels.

The resolution would have no power of law even if passed by the Senate, only expressing what lawmakers think the administration ought to do.

Former President Bill Clinton released 30 million barrels of oil from the reserve when gasoline prices soared the summer and fall of 2000. Critics said the release was timed to help then-Vice President Al Gore who was running for president.

Bush, a former Texas oilman, has adamantly refused to tap the stockpile. He contends the oil should be saved for possible supply disruptions, not to control prices.

The reserve, created by Congress in the mid-1970s after the Arab oil embargo, holds close to 660 million barrels. The administration wants 700 million barrels in it by next year.

Democrats will argue that releasing stockpiled oil would show OPEC that Washington is willing to play hardball to ensure adequate crude supplies and lower prices, the aide said.

U.S. Energy Secretary Spencer Abraham will join OPEC oil ministers later this week in Amsterdam at a global meeting of oil producing and consuming nations. It will be the last opportunity for him to lobby OPEC ministers in person for more oil before the cartel meets formally in Beirut on June 3.

Last week, Democratic Sen. Robert Byrd of West Virginia wrote a letter to the president asking him to temporarily suspend deliveries of oil to the emergency stockpile. Other Democrats, including presidential hopeful John Kerry, have urged the White House to at least slow the rate at which the stockpile is filled.

Electric Rates Will Rise 3.2%

The Olympian, May 16

On a split vote, state utility regulators Thursday approved a 3.2 percent increase in electric rates charged to Puget Sound Energy customers, including all of Thurston County.

For a typical residential customer, monthly bills will increase by about $2.30, to $61.15.

The rate increase authorizes the state's largest investor-owned utility to collect an additional $44 million a year to pay for purchase of part of a natural gas-fired power plant in Pierce County and fuel costs at another power plant.

The Washington Utilities and Transportation Commission approved the increase on a 2-1 vote with Marilyn Showalter and Richard Hemstad voting "yes" and Patrick Oshie voting "no."

Oshie argued that the utility's rate increase should be set at 2.5 percent.

Lower than sought

The company had sought a 3.9 percent increase, which would have bumped up the average bill by $2.82 a month.

In a separate case filed April 5, Puget Sound Energy has requested commission approval to increase electric rates 5.7 percent and natural gas rates 6.3 percent. That rate case involved power costs as well as all other costs associated with serving customers.

The utilities commission must rule on the pending case by March 2005.

Thursday's rate increase will go into effect as soon as the various rate tariffs for each customer class are filed by the utility and approved by the commission, a process that should take about two weeks, utilities commission spokeswoman Marilyn Meehan said.

Water supplies low

Water supply forecasts for the entire Columbia River Basin have been below normal this spring, pointing to a difficult summer ahead for electricity management and protection of threatened fish, energy planners were told Thursday.

Runoff at six hydroelectric dams in the basin bottomed out at 63 percent of normal for January through July 2004, according to a forecast produced by the National Weather Service's River Forecast Center and presented to the Northwest Power and Conservation Council.

The energy planning agency is responsible for coordinating power and conservation policy in Oregon, Washington, Idaho and Montana.

The forecasts ranged from 83 percent of normal at Grand Coulee Dam on the Columbia River to 63 percent of normal at the Snake River's Lower Granite Dam.

PacifiCorp Ventures Indicate Wind Power is Economically Viable

By Ken Silverstein, Director, Energy Industry Analysis

When PacifiCorp set out to add 1,100 megawatts of renewable generation to its overall portfolio over the next seven years, it discovered that wind energy has huge possibilities. The Portland, Ore.-based utility received 42 bids totaling 5,600 MW of new renewable resources that equate to 54 projects-85 percent of which are for wind units.

The request for proposals (RFP) is a good example of a utility seeking to diversify its energy portfolio with wind power because it can be an attractive economic proposition. Once a wind farm is built, the cost of power over time is stable and not subject to fuel price volatility. Wind power therefore provides a valuable hedge against natural gas price spikes-a phenomenon that has hurt the overall economy. In the Northwest and West, the power source also helps to conserve water, which is used for hydroelectric generation. That value is unique to that part of the country.

"We received tremendous response to the renewable RFP, and that demonstrates to us there are many sophisticated bidders interested in delivering renewable resources to our customers," says Stan Watters, senior vice president for PacifiCorp. "Building a diverse, low cost, and low risk energy portfolio that includes renewables will allow us to meet demand and provide the best value for customers."

New Players

In the case of PacifiCorp, its projected load growth indicates a total need for an additional 4,000 MW of capacity between 2004 and 2013. Its RFP is one of the largest such request for renewables ever released by an investor-owned utility in the United States. Bidders were required to submit pricing with and without extension of the federal production tax credit for wind resources. Now, the company will wade through offers and verify the creditworthiness of the top scorers before announcing the winners in June.

It's all a boost to a segment of the energy sector that has seen some high powered players enter the fray and make huge investments. Just this week the 162-MW Colorado Green wind farm in Colorado is being dedicated. The project was built following a ruling of the Colorado Public

Utilities Commission that found that wind farms would likely lower the cost of electricity for consumers there and that the economics of the wind bid could also be justified purely on economic grounds.

At the same time, 80 MW of wind have just been purchased by Basin Electric Power Cooperative, a regional group that serves 124 rural electric systems in the central United States. The power comes from two 40 MW wind farms that are located in the Dakotas.
But, other projects are not going forward because of the delay in extending the wind energy production tax credit. Critics of the credit and of wind energy generally ask why the incentive is needed if wind is increasingly competitive with alternative fuel forms. American Wind Energy Association Executive Director Randall Swisher says that the credit is important for the financing of wind projects, just like various incentives are vital to the development of new technologies that foster other advances in the energy sector.
The failure to extend the production tax credit is tangible. In North Dakota, more than half the employees at West Fargo-based DMI Industries, a manufacturer of wind turbine towers, have been laid off. In Texas, Lone State Transportation of Fort Worth would lose as much as $1.5 million in revenue per month because of project delays. In 2002, 20 percent of Lone Star's revenues came from wind energy, with the trucking of wind turbine blades, towers and generating units to development sites.

"The credit is not a costly subsidy that keeps an unhealthy and inefficient industry propped up on a cane," says Swisher. "At this point in the evolution of wind power technology, it is an incentive that accelerates development of a promising technology that is already delivering economic as well as environmental benefits to consumers."

Tax Credits' Future
Over the last five years, U.S. wind capacity has expanded at an annual average rate of 28 percent, says the American Wind Energy Association. If the wind industry was to consistently grow at a rate of 18 percent per year, then six percent of the nation's electricity could be derived from the fuel source by 2020, it adds. That would result in more than $100 billion of new investment in rural America. To help it get there, however, many believe the wind energy production tax credit must be extended-something that has slowed the rate of growth from 1,700 MW of production in 2003 to an expected 500 new MW in 2004. The credit expired on Dec. 31, 2003.

The 1.5 cents per kilowatt-hour (kWh) production tax credit for electricity generated from wind turbines in the first 10 years of operation has contributed to the development of wind energy. That credit, now 1.8 cents per kWh after adjustments for inflation, is also critical to projects hoping to win financing from lenders. The energy bill now pending would extend that credit for another three years. The tax credit, first adopted in 1992, expired in June 1999, then was renewed six months later in December 1999. It also expired in December 2001 and was re-implemented in March 2002.

Each time the credit lapsed the industry has suffered, says the wind association. And, when it was subsequently put back in place, development took off. But this "boom-and-bust" cycle could level off if the tax break were extended over a longer time frame, the trade group insists. Still, the industry says that production costs have dropped 80 percent over the last 20 years while the sector grew by 25 percent from 1998 through 2002-something that could be expedited by a proactive government.

"The modern wind industry was born in the United States, but our early technology lead was squandered with the lack of a consistent policy environment in the United States," says Swisher. "Today, a wide range of U.S. companies are interested in the wind industry, but many are staying on the sidelines because of the on-again, off-again nature of the market produced by frequent expirations of the credit."

Policy Mix

A recent study by the Lawrence Berkeley National Laboratory found that a 50-MW wind farm delivering power and using typical natural gas project financing terms as well as current tax subsidies would generate electricity for 3.69 cents a kWh. With tax subsidies, wind energy is now able to compete head on with coal, natural gas and nuclear energy. Critics contend, however, that those tax breaks outweigh the income received from the sale of electricity.

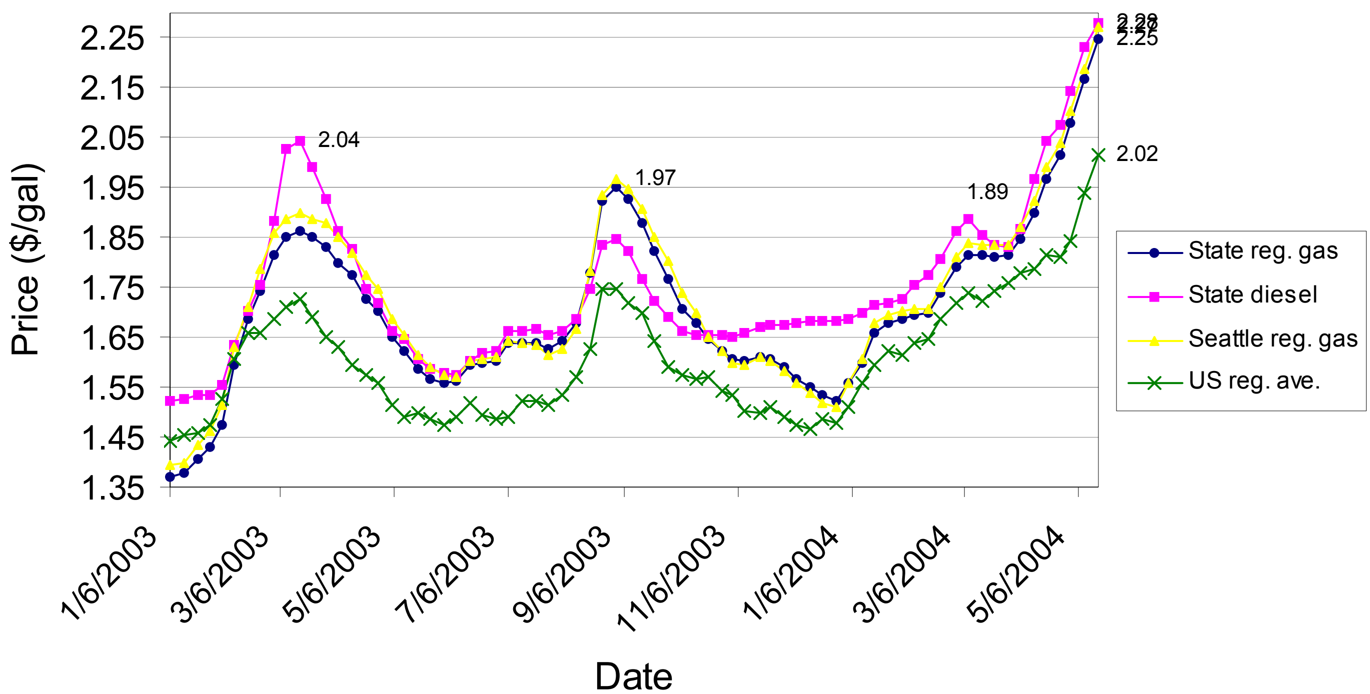
"Until it garners larger markets, renewable energy will continue to be more expensive than it needs to be," says Rafael Friedman, an energy analyst with Pacific Gas & Electric in San Francisco. "It also does not have 100 years of development subsidies behind it."

Policymakers are trying to find the right mix of regulations and incentives to foster new energy sources. PacifiCorp and other major players, obviously, feel wind energy has vast potential. But the fuel source still needs federal assistance to grow. Once projects get up and going, the believers say that the benefits will far outweigh the costs.

Wednesday May 18, 2004

Gasoline and diesel prices again reached new record price levels in nominal dollars[1] this week: \$2.25/gal. and \$2.28/gal. respectively. This is about 25 cents/gal. higher than the national fuel price averages. Economists have warned that persistent high fuel prices will eventually slow the economy. Current high prices have increased the average monthly fuel expenditures for a typical motorist by about \$40.

WA State Gasoline and Diesel Prices: Jan. 03 - May 04



Visit the CTED Energy Policy Website to view the new publication: Gasoline Fuel Price Primer.

http://www.cted.wa.gov/DesktopDefault.aspx?TabId=440

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Weekly Energy Status Report

1. Northwest Power Pool Status (WA, OR, ID, MT, WY, UT, No. NV, BC, AB)

- Power Pool peak load (Tuesday, 5/25): 40,291 MW
- Reserve margins were within comfortable ranges for Northwest Power Pool utilities.

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• Weekly Range at Mid-C:	$44.1- 50.1 per MWh, Ave. = $48.0
• Approximate change from previous week	$+1.9 per MWh
• "Normal" price range, before 5/00	$20-$40 per MWh
• Petroleum, West Texas Intermediate:	$41.88 per barrel (year ago: $28.58)
• Seattle gasoline price (5/25)	$2.35 per gallon (year ago $1.60),
• Natural gas, Sumas Hub:	$5.24 per million British Thermal Units (year ago $5.05)
• Approximate change from last week.	Oil: +0.38 $ per barrel; Nat. gas: -0.14 $ per MMBtu

3. California Electricity Situation

- CA ISO Alert Status
  - A transmission emergency was declared May 3 in So. Cal.: Voluntary curtailment was requested
  - A stage 1 alert, due to an unexpected heat wave, was declared on Mar. 31, 2004.
  - 20 minute outage in So. Cal. on March 8, 2004 due to operator error.
  - Most recent rotating blackouts: Tuesday, May 8, 2001

4. Energy News Headlines from around the Nation

- The 50 cent a gallon solution. (NYT, May 25)
- Saudi promise of more oil fails to stop price rise (NYT, May 25)
- Shell denies greed drives closure (LA Times, May 19)
- Corrosion, power failure possible causes of pipeline blast (Seattle PI, May 26)

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- Observed April stream flow at The Dalles: 105% of average,
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- Observed snow pack, early May: 66% of average,
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- Federal hydropower generation in April: 7,162 aMW, 1995-2002 average: 9,610 aMW.

6. Energy Conservation Achievement (Updated: Feb. 11, 2004)

- State Agencies: From Oct thru Dec 2003 electrical usage was 9 % less and natural gas usage was 21.3% less compared to the same period in 2000.

7. Power Exchanged: (Updated: May 25, 2004)

- Average flow of power during the last 30 days
  - California (exported to) 2,553 MW
  - Canada (exported to) 899 MW
  - Net power export: 3,452 MW

The 50¢-a-Gallon Solution

By GREGG EASTERBRO, **NYT, May 25, 2004**

Republican strategists have been making hay of Senator John Kerry's support a decade ago of a 50-cent-per-gallon increase in the federal gasoline tax. History let Mr. Kerry off the hook: the proposal never advanced in Congress, so he never cast a vote for it.

Few politicians, especially those with presidential ambitions, would entertain such a big jump in the federal gasoline tax today. With the price of gasoline reaching more than $2 a gallon at the pumps this month, Senator Kerry has argued for oil to be diverted from the nation's Strategic Petroleum Reserve, a plan President Bush has rejected in pursuit of his energy bill.

But the country would indeed be better off if gasoline taxes had been raised by 50 cents a gallon when Mr. Kerry favored the idea. And the United States would still be wise today, if it increased gasoline taxes by the same amount now.

The federal gasoline tax is 18.4 cents per gallon, while state gasoline taxes average 24.6 cents per gallon. Had federal gas taxes gone up 50 cents a gallon 10 years ago, several things might not have happened or would have had far less impact.

The S.U.V. and pickup-truck crazes would not have occurred, or at least these vehicles would be much less popular; highway deaths would have been fewer; and gasoline demands would be lower as would oil imports. To continue, the world price of oil would have been lower, since petroleum demand in the United States is the first factor in oil markets; greenhouse-gas emissions in this country would be lower; Persian Gulf oil states would have less influence on the global economy and less significance to American foreign policy; fewer dollars would have flowed to the oil sheiks; and the trade deficit balance for the United States would be smaller.

Don't all those things sound pretty good? And if higher gasoline taxes had moderated the ever-growing national thirst for oil, fuel at the pump still would have become more expensive — but Americans would be sending the extra money to Washington rather than Riyadh.

Of course, Americans don't want to send extra money to Washington. But new gasoline taxes could be revenue-neutral — intended to discourage oil waste rather than fill government coffers, with other taxes cut as the pump tax rises. Ideally, proceeds from a revenue-neutral gasoline tax could be used to reduce income taxes and payroll taxes of the poor and lower middle class. Gasoline prices affect this group regressively.

Most economists would say that higher pump prices are a better counterforce to rising oil consumption than complex regulatory schemes. (When prices rise, consumers make their decisions on how to respond, usually preferred over government-imposed solutions.) Three decades ago, the United States used about 15 million barrels of oil a day; now it's 20 million barrels and rising. About 10 million barrels a day are imported now, compared with about 4 million barrels 20 years ago.

One downside would be lower profits for the Big Three in Detroit, which are S.U.V.-dependent. Any new gas tax would need to be phased in over a period of years, giving Detroit time to adjust. General Motors, Ford and Daimler Chrysler all sell high-quality cars with a higher mile-per-gallon performance at a profit in Europe. They can do so here, too.

When the Bush campaign broadcast an ad highlighting Mr. Kerry's 1994 gas tax position, the Kerry campaign was quick to point out that one of those who had promoted the idea of a higher gasoline tax, offset by reductions in other taxes, was N. Gregory Mankiw, now chairman of President Bush's Council of Economic Advisers. In 1999, Mr. Mankiw proposed that the federal gasoline tax be increased by 50 cents per gallon, with income taxes reduced an equivalent amount. "Cutting income taxes while increasing gasoline taxes would lead to more rapid economic growth, less traffic congestion, safer roads, and reduced risk of global warming," Mr. Mankiw wrote.

This was a good idea when John Kerry spoke of it a decade ago; it was a good idea when Mr. Mankiw proposed it five years ago; it remains a good idea now.

Saudi Promise of More Oil Fails to Stop Rise in Prices

By HEATHER TIMMONS, **May 25, 2004**

Shrugging off Saudi Arabia's promises to step up oil production, investors and traders pushed oil and gasoline prices to new highs on Monday.

Crude oil for July delivery closed at $41.72 a barrel on the New York Mercantile Exchange, a 4.5 percent increase from Friday's close. Gasoline for June delivery rose 2.9 percent, to $1.4578. Both were records for the exchange, which has traded the futures contracts since the early 1980's.

Saudi Arabia, the world's largest oil producer and the only one with significant spare capacity, has been trying for several weeks to ease prices downward by announcing that it would pump more oil itself and calling on the other members of the Organization of the Petroleum Exporting Countries to raise the group's production quotas by about two million barrels a day.

Speaking to reporters on Monday after a three-day oil industry conference here, the Saudi oil minister, Ali al-Naimi, said that the only reason the oil cartel did not adopt the proposal for a quota increase over the weekend was that two members were not represented at the conference.

There is "no disagreement and no conflict" among OPEC members, Mr. Naimi said.

Energy ministry officials from two OPEC members, Venezuela and Libya, expressed concerns over the weekend about Saudi plans to pump more oil unilaterally. After an informal meeting on Saturday, OPEC members reiterated the group's official position that production levels were not the main reason retail fuel prices were high, citing shortages of refinery capacity in the United States, booming demand in China and India, and other factors.

OPEC countries are "already pumping a lot of oil," Seham M. Razzouqi, the finance minister of the Kuwait state oil company, Kuwait Petroleum, said in an interview Monday. Kuwait has already increased its production "substantially," she said.

The Iranian oil minister, Bijan Namdar Zanganeh, told reporters on Monday that OPEC should take measures to send a "positive signal to the consumers and our clients." But he said more consultations were necessary before the cartel could agree on any proposals. OPEC is scheduled to meet formally in Beirut next week.

Mr. Naimi's remarks today followed his pledge on Sunday to Spencer Abraham, the United States energy secretary, that Saudi Arabia would raise its own output by 8 percent, to nine million barrels a day. Unlike a quota increase, which analysts said would merely formally recognize some of the excess supply that OPEC members are already producing, the Saudi pledge would add new oil to the market.

An official close to the Saudi oil ministry said on Monday that the country could add a further 1.5 million barrels a day in just a week, and that the ministry has been working for more than three years on projects that could add yet another 800,000 barrels a day, beginning in October.

Other analysts noted that the new oil that Saudi Arabia could pump quickly is high in sulfur content, while it is the low-sulfur "light sweet" crude that is in short supply. Refiners in the major consuming nations, including the United States and China, generally want only light sweet crude, and that is the type specified in widely quoted market prices.

The fact that Saudi Arabia has not been able to calm the energy markets with promises of more oil demonstrated just how high fears have been running about global shortages, oil industry officials and analysts said.

In the past, Saudi "saber rattling" was successful in moving markets, said Bruce Lanni, an analyst at A. G. Edwards. "But the system has not been as tight as it is today," Mr. Lanni added. Worries about possible sabotage at Saudi oil operations, like the recent attack on a petrochemical plant there, are also helping keep prices high, Mr. Lanni said.

The markets may also have been influenced on Monday by developments elsewhere over the weekend. Royal Dutch/Shell shut an offshore oil platform in the Gulf of Mexico on Saturday after problems with safety valves, cutting output by 150,000 barrels of oil a day. The industry journal Platt's said the platform would be shut for two weeks. Also, leaks in the Olympic oil pipeline in Washington State caused it to be closed on Sunday.

Shell denies greed spurs the closure

***By Dale Kasler , LA Times* May 19, 2004**

In the furious debate over California's gasoline prices, the Shell Oil refinery in Bakersfield - a forlorn mess of pipes and boilers on a state road choking on truck fumes - usually got overlooked. Until Shell decided to close it.

Set for an Oct. 1 shutdown, the refinery produces just a sliver of the state's motor fuel but has been embraced as a cherished resource by economists, elected officials and consumer advocates. They say losing the refinery could be devastating in a market where the balance between supply and demand is extraordinarily delicate.

With the statewide average price of gas at a record $2.31 a gallon Tuesday, one energy economist said prices could jump another 10 percent or more if the refinery closes.

Some consumer advocates say that's no accident. The Foundation for Taxpayer & Consumer Rights, which has unearthed internal company memos showing the refinery has been profitable recently, says Shell is trying to manipulate the market.

"They don't have a good reason for shutting it (except) to drive up the price of gasoline," said Jamie Court, president of the Santa Monica-based foundation. "Shell knows that ... the price will go through the roof."

Shell officials deny that the company is out to do harm. They say the 72-year-old refinery is inefficient and needs $1 billion in new equipment. Discarding it is "best for the consumer," said David Harrington, a spokesman for Shell Oil Products US.

But Shell won't rule out the possibility that prices could go higher as a result. While the company expects to compensate partially by increasing production at other West Coast refineries, Harrington acknowledged Shell's total output of fuel for California will fall. "I don't know what the market's going to look like," he said when asked about the price impact. "Maybe others will bring in cargoes from somewhere" or increase production.

Facing biting criticism from elected officials - and informal inquiries about price impact by the Federal Trade Commission and state Attorney General Bill Lockyer - Shell agreed to try to sell the refinery. So far it's had 14 inquiries but no "credible offers," said spokesman Cameron Smyth.

The refinery's fate is important beyond the immediate impact on prices. Shell's decision raises unsettling questions about Kern County's oil-based economy and California's long-term energy future.

The refinery is surrounded by some of the nation's most fertile oil fields. Kern produces more crude oil than Oklahoma and Wyoming combined, and trails only Louisiana, Texas and Alaska. It's responsible for about one-fourth of all the oil used in California.

But it's slowly running dry.

Kern's oil production is falling roughly 1 to 3 percent a year and has dropped more than 20 percent since 1988 - mirroring what's happening in the rest of California's oil fields.

Twenty years ago, California produced 60 percent of its oil; now it's 48 percent and falling.

Shell officials say declines in Kern's oil make it increasingly difficult - and expensive - to feed the Bakersfield refinery. Although Shell is a partner with ExxonMobil Corp. in a major oil-producing venture in Kern County, that business is run separately and the refinery has to scrounge for supplies like anyone else, Harringon said.

"The crude here is declining. That doesn't mean it's going away tomorrow, but it's a finite resource," he said. "There's a point where the cost to acquire (oil) does not make it efficient to run ... an old, cobbled-together, inefficient refinery."

But at a time of record gas prices, the refinery has become a battleground issue for suspicious consumer advocates and elected officials.

U.S. Sen. Barbara Boxer, D-Calif., who has criticized Shell repeatedly, accused the company Tuesday of speeding up the shutdown by two months. Shell denied it, saying it will begin scaling back production after the peak summer driving season ends on Labor Day. Production would come to a complete halt Oct. 1, as scheduled.

According to documents uncovered by Court's group, the refinery earned $4.7 million last year and has made money in four of the past six years. A separate memo from early last month said the Bakersfield site was enjoying the highest profit margin of any Shell refinery in the nation.

Harrington said the memos only provide a "snapshot" of what's going on. The larger story is that the refinery is increasingly uneconomic, and closing it will improve the efficiency of Shell's West Coast operations, he said.

That's because the Bakersfield site has acted as a kind of drain on a much larger, more efficient Shell refinery in Martinez, which runs partly on Kern oil. With Bakersfield out of the picture, more oil will flow to Martinez, Harrington said. "We can squeeze more ... out of Martinez than Bakersfield," he said.

The company also expects to bring more supplies in from its refinery in Anacortes, Wash. But it won't be enough to make up completely for the loss of Bakersfield.

"Will we be making less gasoline? The answer's yes," Harrington said.

Many experts say California needs every drop it can refine.

While high global crude-oil prices are contributing to the latest increases at the pump, California also is suffering from a long-term, fundamental shortage of production capacity at its refineries. That problem is compounded by the state's unique clean-air fuel specifications: Only a handful of refineries outside California can meet those recipes, and that's a key reason why prices spike when in-state production falters.

As a result, even a small refinery like Shell's in Bakersfield - producer of only 2 percent of the state's gasoline and 6 percent of its diesel fuel - can matter. Even though Shell said it will make up part of the shortfall, the effect on prices still could be significant.

"If you're at a peak time (in demand) and you don't have any other place to get supply, it could mean a 10 to 15 percent increase in the price," said Severin Borenstein, director of the University of California Energy Institute.

The Kern facility opened in 1932 as the Mohawk Refinery. It's gone through a succession of owners, including a joint venture between Shell and Chevron. When Chevron merged with Texaco in 2001 and was forced by antitrust regulators to sell its share, Shell became sole owner.

The plant is actually three separate facilities, pulled together by acquisitions over the years. One of the sites is actually three miles away, connected to the main plant by pipelines.

The combined facility processes under 70,000 barrels of oil a day - a minuscule amount in a state that runs through roughly 2 million barrels daily. It's the second smallest of the 13 California refineries that make gasoline (another 11 refineries make other products).

Bakersfield also needs expensive upgrades, like a machine known as a fluid catalytic cracking unit.

"But it was a $1 billion investment and it never got built," said Gregory Cervantes, the refinery's operations manager.

Cervantes, who's worked at the refinery for 25 years, said he's heard rumors of a shutdown for more than 10 years.

"We gave it a hell of a run," he said. "Nobody expected us to be here this long.

"We tried to work out as many of the inefficiencies as we could. You can't do 'em all."

Some experts agree.

"It's a pretty old, inferior piece of equipment," said Phil Verleger Jr., an independent energy consultant from Newport Beach.

By spotlighting the gradual decline in Kern's oil production, Shell created something of an unpleasant buzz in Bakersfield.

No one denies that oil gradually is running out in Kern. Still, most people say the barrel is half full, not half empty.

Kern has at least 20 to 30 years of oil left, said Randall Adams of the state Department of Conservation's oil and gas division. New oil-extraction methods could extend that even further, he said.

Questions about disappearing oil bring a chuckle from folks like Fred Holmes, a genial oilman who runs drilling rigs in the sandy hills of western Kern.

"Why don't we seem more nervous? We've heard this all our lives," the 60-year-old said in a soft twang. "It's not going to decline overnight."

Locals take heart from ChevronTexaco Corp.'s decision to increase capital spending by $100 million in the area this year. "There's still a lot of value in these fields," said spokesman Greg Hardy.

Oil was first discovered in Kern County in 1899 and has been part of the landscape ever since. Oil rigs methodically bob up and down next to subdivisions, golf courses and everywhere else. The sports teams at Bakersfield High School are the Drillers. The city's elite dine at the downtown Petroleum Club.

The oil business here isn't easy street, though, even when crude prices are sky high. Most of Kern's oil, known as "San Joaquin Valley heavy," is thick and sludgy and expensive to extract, while its high sulfur content makes it less desirable to refiners.

So when west Texas crude, the benchmark for U.S. oil, topped $41 on Tuesday, Kern crude was selling for about $35.

The difficult economics seem to have made Kern oil people that much tougher.

"There's still a lot of wildcatters out there, looking, exploring," said Les Clark, who runs an association of independent oil producers in Kern.

"Most folks know oil won't be there forever. But to shut the door today and walk away? That's not the position we're in."

Corrosion, power failure possible pipe blast causes

By Robert McClure, May 26 SEATTLE POST-INTELLIGENCER

Investigators are looking into corrosion, a power failure and some kind of vibration as possible causes of the Olympic Pipe Line fire and explosion in Renton that shut down fuel deliveries across much of Western Washington this week.

Fuel started flowing again through the pipeline at 7 last night when the line was restarted, Olympic Pipe Line Co. officials said.

Environmental regulatory agencies found no evidence that gasoline that leaked early Sunday had contaminated a nearby stream that shelters juvenile chinook salmon, a protected species. But more tests will be needed to determine the extent of the damage, the state Department of Ecology said.

Tests on the stainless-steel sampling pipe that leaked gas through a pinhole-sized puncture should help determine the accident's cause, said David Lykken, senior pipeline engineer for the Washington Utilities and Transportation Commission.

The leaking pipe, which is about as thick as a garden hose and is used to draw samples of gasoline, diesel and jet fuel for testing, was next to a pipe protecting electrical wire.

"They were touching. We don't know, from a metallurgical standpoint, whether it was corrosion, an arc during a power failure or vibration," Lykken said.

He said authorities are seeking to establish the chain of events that led to the leak east of Westfield Shoppingtown Southcenter.

"Did the power failure occur before the leak? This is the kind of thing we're looking into," Lykken said.

The commission is the Washington agent for the federal Office of Pipeline Safety, which regulates pipeline safety. The state agency will pass the findings and any recommendations for how to prevent recurrences on to the federal agency.

Olympic checked 10 similar spots on the pipeline where similar sampling pipes are located to ensure they safe, said Olympic spokeswoman Lee Keller. The pipeline and its offshoots run for 400 miles between Blaine and Portland.

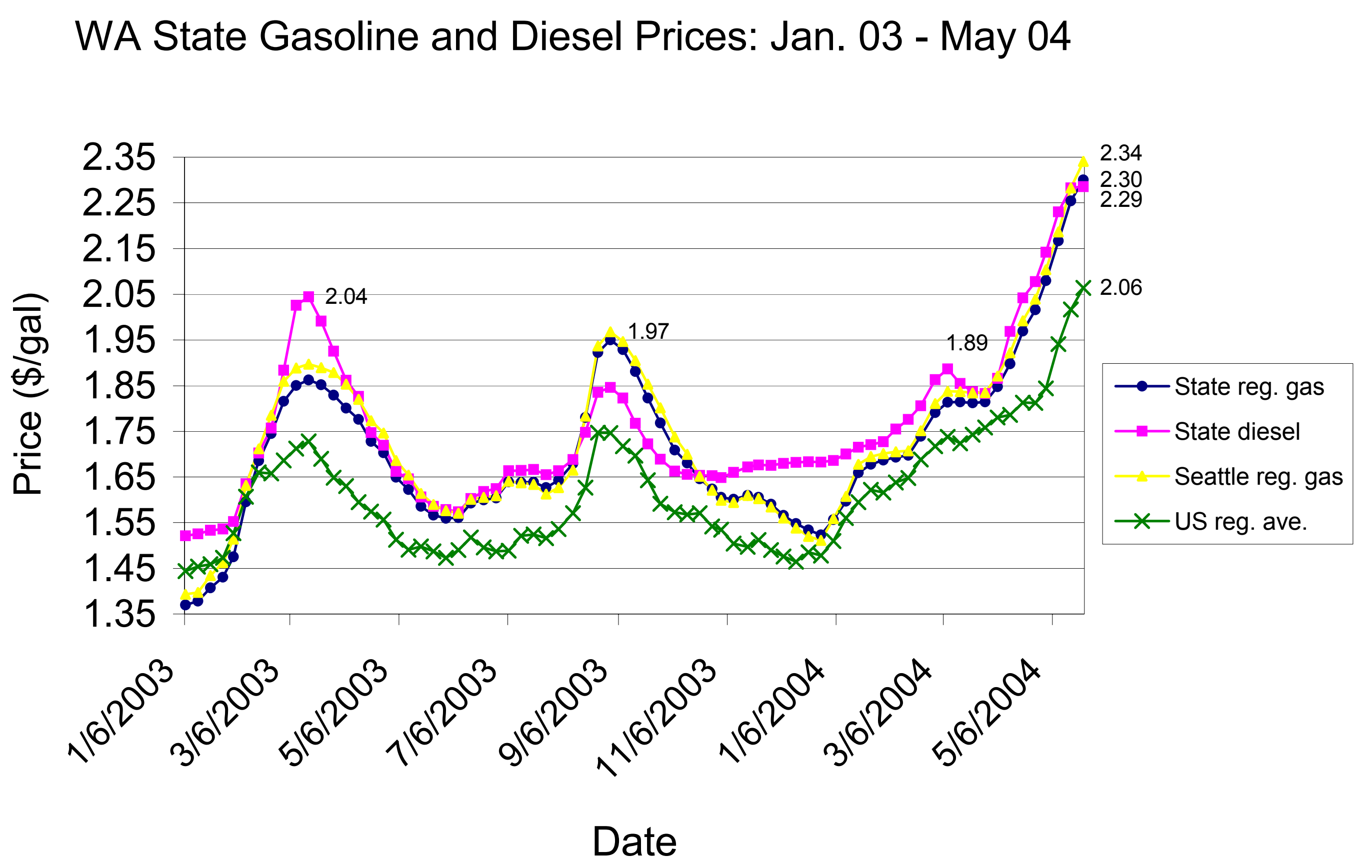
State officials found that no gasoline spilled, puddled or ran off, Ecology spokesman Larry Altose said.

"The question is, how much went into the ground? We don't know that exactly," Altose said.

He said Olympic officials initially estimated that 3,570 to 10,500 gallons leaked, but that's probably too high. That estimate assumed gas was pouring out of the pipe under pressure, when really it was escaping through a pinhole, Altose said.

The most pressing need for fuel was at Sea-Tac Airport, which receives jet fuel exclusively through Olympic's pipeline. Fuel was expected to reach the airport about two hours after the line reopened.

Gasoline and diesel prices again reached new record price levels in nominal dollars[1] this week: \$2.30/gal. and \$2.29/gal. respectively, though the rate of increase appears to have slowed. This is about 28 cents/gal. higher than the national average gasoline price. Congressional leaders have called on President Bush to release crude oil from the Strategic Petroleum Reserve to disrupt the speculative run-up in prices. The President rejected the request citing that the SPR is for true national petroleum emergencies.



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4. Energy News Headlines from around the Nation

- Oil prices set another record, topping $42. (NYT, June 2)
- Area utilities agree to hold down electricity prices (Oregonian, June 2)
- China to boost green power, move away from coal (Reuters, June 2)
- Toward energy autonomy (Seattle PI, May 23)

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  - Net power export: 4,107 MW

Oil Prices Set Another Record, Topping $42

By NEELA BANERJEE, June 2, 2004, NYT

Oil prices jumped to records on Tuesday, as traders in Europe and the United States reacted to the killings of 22 foreign workers in Khobar, Saudi Arabia, over the weekend.

The Khobar attack and the surge in prices have cast a pall over a meeting of the Organization of the Petroleum Exporting Countries here this week, driving home a sense among the delegates that in the short term at least, there is little they can do to bring prices down.

A week ago, Saudi Arabia, the de facto leading member of OPEC, appeared to have a plan to halt the rise in prices. At an industry conference in Amsterdam, the Saudi oil minister, Ali al-Naimi, announced that his country, the only oil producer with significant spare capacity, would be willing to pump a lot more new oil.

Prices drifted down over the course of the week, though infighting within OPEC about the Saudi proposals prevented a steep decline.

But the attack over the weekend on a residential complex in Khobar, an oil hub on the east coast, has fanned fears that terrorism may begin to crimp oil production in Saudi Arabia and elsewhere in the region, and not just in Iraq. The Saudi delegates and others have come to Beirut without options to counter those fears in the short term, analysts said.

Crude oil for July delivery rose 6.1 percent to close at $42.33 a barrel on the New York Mercantile Exchange Tuesday, the highest price in the 21 years that oil futures have been traded there. The International Petroleum Exchange in London recorded a 5.6 percent jump in its benchmark oil contract.

"Clearly, the psychological impact of this was devastating," said Yasser Elguindi, managing director at Medley Global Advisers, a New York consulting firm. "I sense the wind has been taken out of their Amsterdam sails."

Mr. Elguindi and others who have talked to delegates here, and to the Saudis in particular, said that the weekend attack left people shaken.

Lawrence J. Goldstein, president of the Petroleum Industry Research Foundation in New York, noted that oil prices also jumped after an attack in Yanbu on May 1, when five Western oil engineers and a Saudi security officer were killed and more than 30 people were wounded.

ABB, the Swiss-Swedish engineering company that employed the engineers killed at Yanbu, pulled its staff out of the country a few days later. The latest attack stoked worries in the markets that many more foreigners, especially in the upper echelons of the state oil company, Aramco, might leave Saudi Arabia now, possibly affecting production levels, according to Roger Diwan, managing director at PFC Energy, a Washington consulting firm.

Industry analysts said some expatriates, in a range of businesses including the oil sector, were already leaving, and that fears of supply disruptions have added a "risk premium" of $6 to $10 to the price of every barrel of oil.

"The question is, Will they be able to attack oil facilities? We don't know," Mr. Diwan said. "It's much easier to attack a compound than a facility, and the fact that they haven't attacked one should be reassuring. But the fact is that you will see more violence against civilians, foreigners and non-foreigners, no doubt."

Saudi Arabia is widely expected to go ahead and throw its oil taps wide open in an effort to push prices down. Disagreement within OPEC about proposed increases in production quotas has kept the Saudis' plans from doing much good so far, Mr. Elguindi said, and the discord may be making matters worse by revealing a level of disorganization and fragmentation within the cartel that traders do not want to see right now. A decision on quota levels is expected when delegates meet formally here on Thursday.

Saudi Arabia produced about 8.5 million barrels a day last month, and appears prepared to increase production to about 10 million barrels a day for the next few months, Mr. Goldstein said. But there, too, problems loom. The kind of new oil the Saudis can offer is high in sulfur, but most refineries want low-sulfur crude, which is better for making gasoline, Mr. Goldstein pointed out. He and other analysts said that the new oil might help hold down gasoline and heating oil prices in the fall and winter, but would do little to ease the upward pressure on prices now.

Portland, Ore.-Area Utilities Agree to Hold Down Electricity Rates

By Jonathan Brinckman, Oregonian June 2.

The Bonneville Power Administration said Tuesday that it has reached an agreement with six investor-owned utilities that will hold down the wholesale price of electricity for 135 publicly owned power companies across the region.

The final impact on wholesale prices remains unknown, though, because other factors -- including river flows, which affect the amount of extra electricity that Bonneville can sell on the open market -- also influence the price the BPA charges for electricity.

The National Weather Service's June forecast predicts that the volume of water running down the Columbia River will be 22 percent below average this year. The BPA's proposal for rates after Oct. 1 will not be released until August.

The agreement announced Tuesday, the BPA said, will drop wholesale rates to publicly owned utilities 6 percent below "what they would otherwise be" for the fiscal year after Oct. 1.

Bonneville supplies half the Northwest's electricity from a network of 29 federally owned dams in the Columbia River Basin and one nuclear plant near Hanford, Wash.

Public utilities are the BPA's primary customers and they have fought vigorously to protect their rights to the power. Increasing wholesale electricity prices in recent years made the cheap power all the more coveted and made the battles between the public utilities and their investor-owned counterparts all the more contentious.

In the aftermath of a regional energy crunch in 2000 and 2001, the BPA's wholesale rates jumped from $22 a megawatt hour to $32.64 a megawatt hour in less than three years.

The impact felt by electricity customers from a BPA rate decrease this year depends on how much electricity a particular utility gets from the agency.

The wholesale cost of electricity makes up roughly half the final cost to consumers. That means a 6 percent BPA rate decrease in fiscal year 2005-2006 might translate into a 3 percent rate decrease to customers of utilities who get all their electricity from the federal agency.

The latest agreement will raise wholesale rates by 1 percent in fiscal years 2007-2011, the BPA said.

Some representatives of publicly owned utilities were pleased with the agreement, which does not require that the utilities drop other lawsuits against the BPA that contend that the agency has signed contracts that unfairly benefit investor-owned utilities.

"This is certainly good news," said Mick Shutt, a spokesman for the Clark County PUD. "Anything they can do to reduce expenses is a fine by us." An earlier proposed settlement failed last January when public utilities refused to give up the right to pursue those legal actions.

"I commend (BPA Administrator) Steve Wright and his staff for doing this," said John Saven of Northwest Requirements Utilities, which represents 47 publicly owned utilities that buy all of their electricity from the BPA. "I think it's good for everybody."

Oregon's Democratic senator, Ron Wyden, also praised the agreement. "Although it doesn't provide as deep a discount as a larger settlement would have, this agreement is still a step in the right direction," he said.

The agreement calls for PacifiCorp and Puget Sound Energy to give up $100 million of $200 million the BPA had promised them in exchange for an promise by BPA to increase its cash payment to them if market rates for electric power rise in the 2007-to-2011 time period. The remaining $100 million will be paid by the BPA to the two utilities in 60 installments.

Four other investor owned-utilities -- Portland General Electric, Avista Corp., Idaho Power Co. and NorthWestern Energy -- agreed to give up a total of $3.5 million.

"This is a good deal for the region and a good deal for our customers," said Dave Kvamme, a spokesman for PacifiCorp. "A financially healthy BPA is in the best interest of all of the region, and our customers get an assurance for the 2007-to-2011 rate period."

China to boost green power, move away from coal

By Vera Eckert, June 2 (Reuters)

China plans to boost renewable energy to provide 10 percent of the country's electricity needs by 2010, in a move to reduce its reliance on polluting coal for generation, a government official said on Wednesday. China wants to raise its green power capacity to

60,000 megawatts by the end of the decade, the energy bureau of China's National Development and Reform Commission told an international conference in Germany dubbed Renewables 2004. By 2020, its renewable capacity would be double to 121,000 MW which would account for 12 percent of China's booming energy demand, the commission's vice chairman Zhang Guobao told delegates. "We will take these action plans forward...to promote the large-scale exploitation of renewables," Zhang Guobao said through an interpreter. China expects to have 50,000 MW of hydropower, 4,000 MW of wind power, 6,000 MW of biomass power generation and 450 MW of solar energy by 2010.

The country's wind farms have a capacity of just 468 megawatts, out of a total installed capacity of 356,000 megawatts. China has been slow to join the global wind power expansion but is keen to diversify its energy sources, whether by building the world's largest hydroelectric project in the Three Gorges Dam or by increasing nuclear and gas-fired power plants. China, the world's most populous nation, faces great environmental issues as its explosive economic expansion is due to potentially make it the largest producer of the so-called greenhouse gases, including carbon dioxide. German Environment Minister Juergen Trittin told the meeting that China had delivered "major proposals which even if they stood alone would make the conference a success." China has recently adopted laws to subsidise green energy, guaranteeing purchase contracts and above-market prices for renewable energy, which were modelled on Germany's pioneering renewable energy law.

China is the second largest importer of oil while also being the world's largest producer and consumer of coal.

Toward energy autonomy

SEATTLE POST-INTELLIGENCER EDITORIAL BOARD, May 23

Painful evidence of the need to spend federal money more wisely, particularly on science and technology, can be found at your local gas station, coming out of the pump at more than $2 a gallon.

One need not subscribe to the "blood for oil" hyperbole to recognize a connection between Middle East strife and America's irresponsible dependence on imported oil.

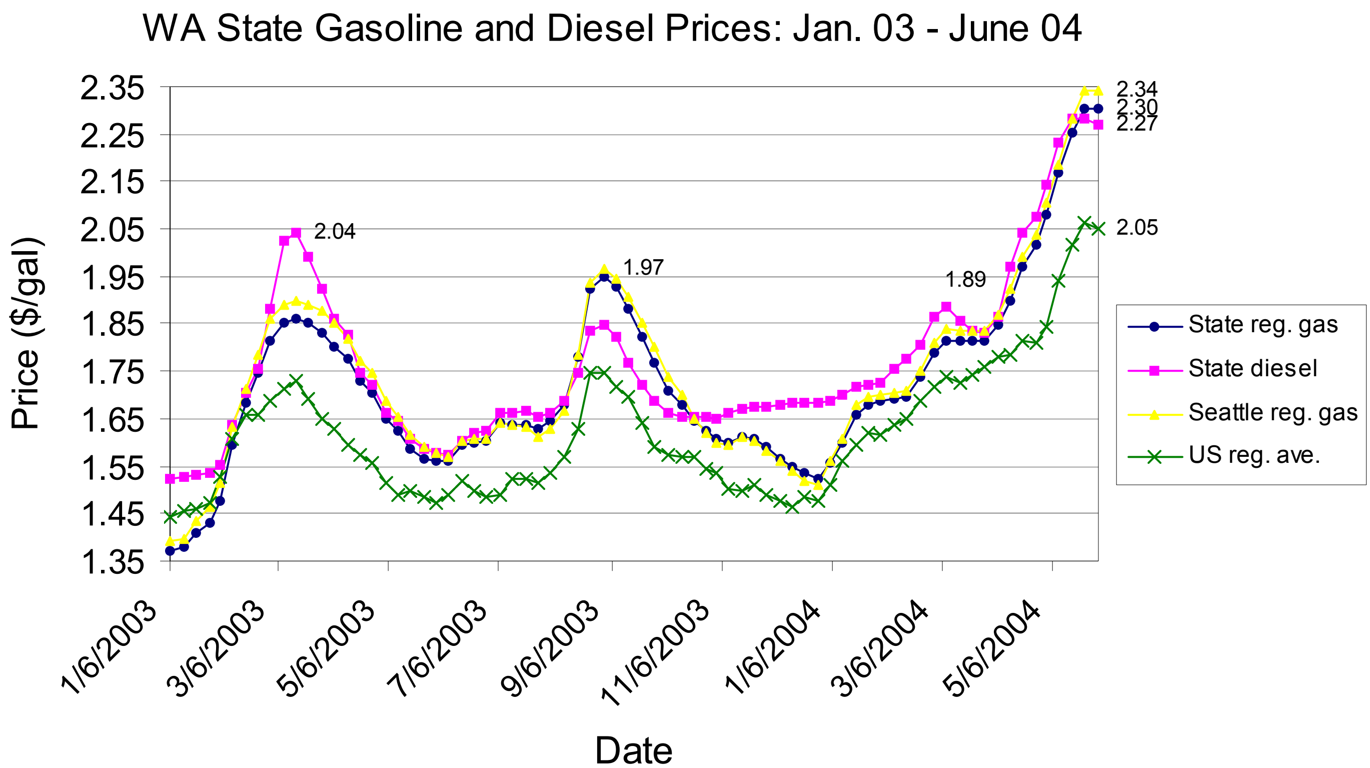
The approach of a summer driving season has driven some Democrats to the folly of demanding that President Bush start pumping from the nation's strategic petroleum reserve. That's as silly as the Republicans' insistence on perforating the Arctic National Wildlife Refuge.

A nation deemed to be on a wartime footing can afford neither the politically driven depletion of strategic reserves to quell consumer complaints nor an environmentally risky crapshoot in the frozen north.

A wiser, more forward-thinking and environmentally sound national security strategy would be to embark on the 21st century equivalent of the Manhattan Project -- an all-out scientific, technological and engineering program to assure victory not through the ultimate in destructive powers but in creative power of developing alternative energy sources. Solar, wind, geothermal, hybrids, hydrogen fuel cells and even fusion are among the sources that offer opportunities for both immediate conversion and long-term research and development.

There are many more sensible ways to use the $5 billion a month going to the war in Iraq. One of the best would be to bolster national security by dramatically boosting America's energy independence.

Retail gasoline and diesel prices appear to have stabilized this week, with regular unleaded at 2.30/gal. and diesel at $2.27/gal: about $0.25/gal. and 0.58/gal. higher than their national averages respectively. The spot market price of gasoline has fallen by 0.20cents/gal. over the last 2 weeks, while crude oil prices have remained about the same.



Visit the CTED Energy Policy Website to view the new publication: Gasoline Fuel Price Primer.

http://www.cted.wa.gov/DesktopDefault.aspx?TabId=440

Weekly Energy Status Report

1. Northwest Power Pool Status (WA, OR, ID, MT, WY, UT, No. NV, BC, AB)

- Power Pool peak load (Tuesday, 6/9): 42,728 MW
- Reserve margins were within comfortable ranges for Northwest Power Pool utilities.

2. Electricity, Petroleum and Natural Gas Prices

Weekly Range at Mid-C:	\$27.2- 32.2 per MWh, Ave. = \$29.4
Approximate change from previous week	\$-3.6 per MWh
"Normal" price range, before 5/00	\$20-\$40 per MWh
Petroleum, West Texas Intermediate:	\$37.55 per barrel (year ago: \$31.45)
Seattle gasoline price (6/9)	\$2.31 per gallon (year ago \$1.57),
Natural gas, Sumas Hub:	\$5.40 per million British Thermal Units (year ago \$5.07)
Approximate change from last week.	Oil: -1.68 \$ per barrel; Nat. gas: +0.11 \$ per MMBtu

3. California Electricity Situation

- <u>CA ISO Alert Status</u>
  - A transmission emergency was declared May 3 in So. Cal.: Voluntary curtailment was requested
  - A stage 1 alert, due to an unexpected heat wave, was declared on Mar. 31, 2004.
  - 20 minute outage in So. Cal. on March 8, 2004 due to operator error.
  - Most recent rotating blackouts: Tuesday, May 8, 2001

4. Energy News Headlines from around the Nation

- California looks for ways to cut auto emissions. (NYT, June 9)
- BPA will boost spill at four dams (Seattle PI, June 9)
- Enron's awesome cynicism (International Herald, June 7)

5. River and Snow Pack Information (Updated: May 28, 2004)

- Observed April stream flow at The Dalles: 105% of average,
- Observed May precipitation above The Dalles: 117% of average,
- Observed snow pack, early May: 66% of average,
- Estimated Jan.-July runoff at The Dalles: 79.5 MAF, 74% of normal,
- Federal hydropower generation in April: 7,162 aMW, 1995-2002 average: 9,610 aMW.

6. Energy Conservation Achievement (Updated: Feb. 11, 2004)

- State Agencies: From Oct thru Dec 2003 electrical usage was 9 % less and natural gas usage was 21.3% less compared to the same period in 2000.

7. Power Exchanged: (Updated: June 9, 2004)

- Average flow of power during the last 30 days
  - California (exported to) 3,095 MW
  - Canada (exported to) 1,407 MW
  - Net power export: 4,502MW

California Looks for Ways to Cut Auto Emissions

By DANNY HAKIM, NYT, June 9, 2004

An initial draft of a California global-warming regulation would require automakers to cut the amounts of carbon dioxide and other gases linked to climate change that their new vehicles emit by as much as 30 percent over the next decade.

The draft is expected to be made public this week or next. People briefed on it said that the 30 percent figure could still be changed before it is released, though probably not by much.

If adopted, the plan would have the effect of compelling the industry to make the cars, sport utility vehicles and other vehicles it sells in California much more fuel-efficient. Unlike the particles and gases that contribute to air pollution and smog, whose emissions can be reduced technologically, the gases linked to global warming are an inevitable product of fuel combustion, and no way yet exists to filter them from engine exhaust. The only way to comply with the proposed rules would be to build vehicles that burn less fuel.

Details of the draft proposal were described to The New York Times by environmental groups that were briefed on its contents last week.

The California Legislature passed the nation's first law aimed at curbing global-warming emissions from cars and light-duty trucks in 2002. The law directed the state's Air Resources Board to come up with a plan this year. The proposal will be reviewed by regulators over the summer and fall, and then be subject to review by the state Legislature next year.

If adopted, the proposed rules would take effect at the beginning of 2006, but give automakers until the 2009 model year to start meeting the requirements. As described to environmental groups, the rules would require progressively greater reductions in average emissions, reaching 30 percent in the 2015 model year.

Officials at the state air board declined to comment.

The proposal will have implications for Northeast states like New York that generally follow California's lead in setting air-quality rules. California, where smog has been an issue for decades, has the power to set alternative standards to Washington's because its regulations predated the federal Clean Air Act.

The new rules would set the state even further apart from the federal government on environmental regulations. Nationally, fuel economy has stagnated for the last two decades as automakers have sold more sport utilities and large pickup trucks and a smaller proportion of passenger cars. The Bush administration has moved away from regulating global-warming emissions, withdrawing the United States from an international treaty known as the Kyoto Protocol meant to curb them.

"It's important California leads the way, frankly, because of the lack of leadership on the federal level," said Assemblywoman Fran Pavley, the Democrat from the Los Angeles area who sponsored the state law.

But California's strategy seems certain to face a legal challenge from the auto industry, and potentially from the federal government. Both may argue that the proposal is pre-empted by federal authority to set fuel-economy regulations.

In an interview in May, William Clay Ford Jr., chairman and chief executive of the Ford Motor Company, said, "The issue for us is always going to be if individual states are doing their own thing, versus the federal government - it does make our life a lot more complicated."

"What will happen, of course, is that California will do its thing, and then New England will start to weigh in, New York State, and pretty soon we'll end up with a patchwork," he added. "I really would like to have a national approach to this, because otherwise we and other manufacturers will have a really hard time responding."

Elisa Lynch, the global-warming campaign director of Bluewater Network, a San Francisco environmental group, said the plan did not go far enough. "This is a very conservative approach as it is, and the law calls for them to go as far as they can," Ms. Lynch said. "This is a minimum of what they should have done."

Kate Larsen, a policy associate at Environmental Defense, was more supportive. "I think the numbers are good, and are based on real sound science," Ms. Larsen said. "We think this is a good start and these reductions will be achievable." Based on their previously stated positions, other environmental groups are also likely to support the plan.

Most automakers have argued in recent years against calls for smaller increases in fuel economy rules than those that would be required to cut global-warming emissions by 30 percent. When the Bush administration imposed a 1.5 mile-a-gallon increase in standards for S.U.V.'s and other light-duty trucks, G.M. argued that the effects would be calamitous.

In an interview Tuesday night, Dave Barthmuss, a spokesman for G.M. in California, said, "We are working as hard as we can to make our engines as clean and efficient as possible." He said he was not aware of the details of the draft plan because it had not been released.

After years of disputes over auto regulation, California and the automakers called a truce last year, when G.M. and Chrysler dropped a lawsuit challenging the state's Zero Emission Vehicle mandate, which will require the production of millions of cars and trucks over the next 15 years that emit little or no smog-forming pollutants.

Though the latest measure is aimed at a different problem, some technologically advanced vehicles, like hybrid cars, can help meet both goals. The new measure will be more of a challenge for the industry than the Zero Emission Vehicle rules.

"When it comes to climate change, California is aligning itself with the rest of the world," Alan C. Lloyd, the chairman of the state air board, said in an interview last year. "Somewhere along the line, we would expect a lawsuit."

Gov. Arnold Schwarzenegger has expressed support for the greenhouse-gas measure; on his campaign Web site, he said he would "work to implement it and to win the expected challenges in court along the way."

BPA will boost spill at 4 dams

But tribes and fishermen say move to help salmon migrate isn't enough

By William McCall, Seattle PI, June 9

The Bonneville Power Administration said yesterday that it will spill more water than planned over four Columbia and Snake river dams this summer to help young salmon migrate.

But the agency will still hold back enough to save ratepayers up to $31 million in electricity costs, officials said.

The amended summer spill proposal released by the federal power marketing agency and the Army Corps of Engineers will reduce the amount of water available for salmon migration by about 39 percent, against an earlier proposal that would have reduced the spill by 55 percent.

Under the amended proposal, summer spill would be reduced after most of the downstream salmon migration has occurred and few juvenile salmon are passing the dams.

"We believe this proposal would result in the survival of at least as many fish as the full summer spill program while reducing costs to Northwest electric ratepayers by $20 million to $31 million," said BPA Administrator Steve Wright.

The difference between the original spill plan and the amended proposal amounts to about 1,000 megawatts, or enough electricity to light a city the size of Seattle for a month, Wright said.

Northwest Indian tribes and fishermen immediately criticized the plan, calling it a setback for salmon recovery in a region trying to balance conservation and energy demands across the West. The 29 hydroelectric dams along the Columbia and Snake rivers generate about half the electricity in the Northwest and supplement the rest of the West during summer, when air conditioning demand peaks in Arizona and Southern California.

But tribes and fishermen say too many juvenile fish are sacrificed each year to boost energy production. The amended proposal, they say, shows that salmon conservation still has only weak support from the Bush administration.

"Slashing summer spill spurns the unanimous scientific advice of Northwest fishery agencies and Indian tribes and continues a three-year pattern of failure of this administration to implement its own salmon plan," said Pat Ford, executive director of Save Our Wild Salmon.

The resulting economic benefit is minor, according to Sara Patton, executive director of the NW Energy Coalition in Seattle.

"We're talking 7 cents to a maximum of 66 cents per month for residential customers," Patton said, "for the sake of running air conditioners in California."

Utilities and industry customers support the plan, saying the boost to the regional economy would be huge.

Bonneville has been struggling with huge cost increases caused by the Western energy crisis of 2001, when the agency had to buy high-priced power on the wholesale market to meet demand that soared because of drought, failed deregulation in California and Enron Corp. market manipulation.

Wright said the 1,000 megawatts of additional hydropower generation under the amended plan will cut the need for energy from coal or gas-fired power plants, reducing summer air pollution across the West.

Enron's awesome cynicism

International Herald, June 7

One energy trader gloats about cheating "poor grandmothers." Another suggests shutting down a power plant in order to drive up electricity prices. A third, hearing of a fire under a transmission line that caused a power failure, shouts "burn, baby, burn." Another says that he would like to see

Kenneth Lay then Enron's chief executive wind up as energy secretary in the new Bush administration.

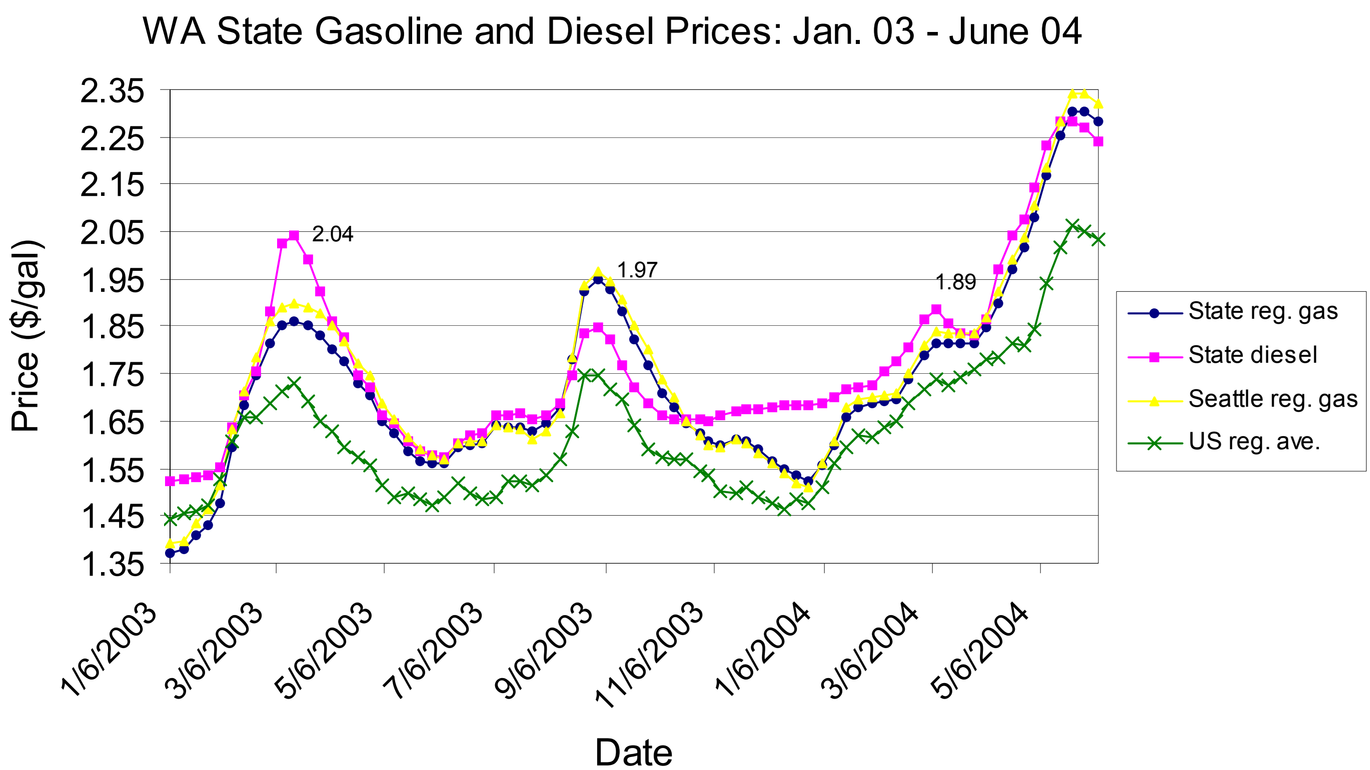
An exhaustive study released by the Federal Energy Regulatory Commission in March 2003 confirmed what everyone had long suspected that Enron and other major energy companies manipulated California's energy markets in 2000 and 2001 in ways that cost the state billions.

Now comes the most graphic evidence yet of the cynicism and ruthlessness with which Enron's floor traders, presumably with the endorsement of their superiors, rigged the market.

The evidence is in taped conversations among Enron traders, obtained from the Justice Department by a public utility district near Seattle that wants to recover what it says are $2 billion in unjust profits. The tapes, which CBS broadcast last week, are remarkable not only for their cynicism but also their raw profanity the average energy trader appears to have a vocabulary consisting of a half-dozen obscenities as well as "cool," "wow" and "awesome" as in wouldn't it be "awesome" if Lay got the energy post. But the traders are not politically stupid. One is heard predicting that President-elect George W. Bush would oppose caps on wholesale electricity prices which indeed Bush did, until the crisis got completely out of hand.

The tapes are the equivalent of the cynical e-mail messages in which Henry Blodget and other Wall Street analysts acknowledged that the stocks they were peddling were mostly dogs. Those messages ruined careers and led to big fines. Whether the Enron tapes will have the same effect remains to be seen. In a case before the 9th U.S. Circuit Court of Appeals, California is trying to recover $8.9 billion in refunds from Enron and others. The state will not get nearly that most of the companies are now bankrupt but the tapes can't hurt their efforts.

Retail gasoline and diesel prices reached a plateau early last week, and have been declining since, with state averages for regular unleaded down to $2.28/gal. and diesel at $2.24/gal. These prices are about $0.25/gal. and $0.51/gal. higher than their national averages respectively. The spot market price of gasoline has fallen by 25 cents/gal. over the last 3 weeks, while crude oil prices have declined about $4/barrel (approximately 10 cents/gal).



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Wednesday June 16, 2004

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- Power Pool peak load (Tuesday, 6/15): 42,435 MW
- Reserve margins were within comfortable ranges for Northwest Power Pool utilities.

2. Electricity, Petroleum and Natural Gas Prices

- Weekly Range at Mid-C: $10.4- 29.6 per MWh, Ave. = $16.6
- Approximate change from previous week $-12.8 per MWh
- "Normal" price range, before 5/00 $20-$40 per MWh
- Petroleum, West Texas Intermediate: $37.18 per barrel (year ago: $31.45)
- Seattle gasoline price (6/15) $2.27 per gallon (year ago $1.57),
- Natural gas, Sumas Hub: $4.91 per million British Thermal Units (year ago $5.07)
- Approximate change from last week. Oil: -0.37 $ per barrel; Nat. gas: -0.49 $ per MMBtu

3. California Electricity Situation

- CA ISO Alert Status
  - A transmission emergency was declared May 3 in So. Cal.: Voluntary curtailment was requested
  - A stage 1 alert, due to an unexpected heat wave, was declared on Mar. 31, 2004.
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4. Energy News Headlines from around the Nation

- Natural Gas s likely to stay pricey (WSJ, June 14)
- Regulators OK gas pipeline for reopening (Olympian, June 14)
- Vehicle exhaust plan unveiled (Sac Bee, June 15)
- In The Northwest: It's time for consumers to get angry at the FERC (Seattle PI ,June 16)

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- Observed May stream flow at The Dalles: 79% of average,
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  - California (exported to) 3,403 MW
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  - Net power export: 4,820 MW

Wednesday June 16, 2004

Natural Gas Is Likely to Stay Pricey

Demand Surges as Economy Recovers, While Producers Struggle Just to Keep Pace

By RUSSELL GOLD, WSJ June 14

While crude-oil prices are calming down, natural-gas prices in the U.S. are poised to stay strong. And unlike with oil, there are no big natural-gas producers to step up and fix the problem.

The economic recovery and proliferation of natural-gas-fired power plants continue to rev up demand for the fuel. But energy companies aren't keeping up. In fact, they are struggling just to maintain supplies, which may make natural gas vulnerable to an unprecedented summertime price increase in coming months.

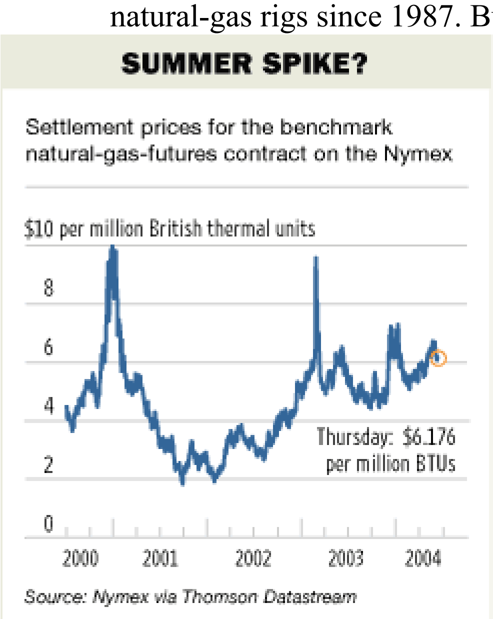
Natural gas -- used for industry, home heating and for the generation of electricity -- is expected to remain pricey for the next year. It has cost more than $5.50 a million British thermal units nearly all year, and last month, traders on the New York Mercantile Exchange bid up contracts for the next 12 months to an average price of $6.75 a million British thermal units, a record. Though both near- and long-term prices have retreated along with crude oil, they still remain high.

Oil prices began to come down after the Organization of Petroleum Exporting Countries this month pledged to increase production in order to curb crude-oil prices. Saudi Arabia, OPEC's most powerful player, has about a quarter of the world's oil reserves and hasn't begun to tap them all.

Natural-gas producers can't drill their way out of their problem. North America natural-gas reserves have been slowly declining since the 1980s, and the low-hanging fruit has been plucked. Importing natural gas is difficult, in part because only a limited number of terminals can accept gas that is super-cooled to be transported.

Instead, the biggest natural-gas producers in the U.S. are mostly rearranging the furniture -- buying each other to get at prized reserves in the Rocky Mountains rather than spending their cash on new prospects. In a different tack, Anadarko Petroleum Corp. last week said it would sell a quarter of its producing properties in North America, putting them in the hands of smaller companies with less financial ability to rejuvenate aging fields. Meanwhile, Anadarko plans to redeploy much of its efforts into faster-growing, more promising regions overseas.

Currently, more than 1,000 rigs are drilling for natural gas in the U.S., close to the 2001 high, and about another 200 are active in Canada, according to Baker Hughes Inc., which has been tracking natural-gas rigs since 1987. But even those that want to increase activity to capitalize on high commodity prices are finding the raw materials aren't necessarily available.



"What we see currently and what we see over the horizon in the next year or two is at best in North America a flat-supply scenario," says Darryl Smette, a senior vice president at Devon Energy Corp., of Oklahoma City, the largest U.S. independent producer of natural gas. "Over the past three or four years, the wells we are drilling in North America have tended to find fewer reserves with greater declines when those reserves start producing."

Overall, reservoirs in North America tend to be inferior and smaller, driving up the cost of production, says Steven Shapiro, executive vice president of Burlington Resources Inc., of Houston.

"The rig count is fairly high, but the productivity that we're seeing out of those rigs is not as high."

However, with higher prices, companies now are focusing on fields that once were passed over because costs were too high. Burlington Resources, for instance, is developing new reserves in central Wyoming's Madden Field. The gas is nearly five-miles deep, twice as deep as conventional wells, and under extraordinary pressure. Drilling so far down can take nine months and requires specialized services to make sure the pressure doesn't blow out the pipe.

The result of these trickier wells, in Madden and elsewhere, is that the search for natural gas in North America has become markedly more expensive. From 2001 through 2003, the three-year average finding cost for natural gas was $1.53 a million BTUs, up 29% from the three-year average the year before, according to a recent analysis by Bear Stearns. Costs are continuing to rise: In 2003, the average finding cost was $1.73 a million BTUs.

With new gas so hard to find and so costly, companies that want to show growth are prospecting on Wall Street. In April, Kerr-McGee Corp., of Oklahoma City, spent $2.5 billion to purchase Westport Resources Corp., the first of three comparably sized deals that included EnCana Corp., of Calgary, Alberta, acquiring Tom Brown Inc. The trend continued last week when Petro-Canada of Calgary, snapped up Prima Energy Corp. for $534 million. Part of the reason behind the recent spate of acquisitions is that it is cheaper to buy known reserves of natural gas than it is to explore for new ones.

But by pouring cash into acquisitions, energy producers are merely swapping reserves, not adding new reserves. Bear Stearns analyst Ellen K. Hannan noted in a recent report that in 2001, the last time more than 1,000 rigs were drilling for natural gas in the U.S., companies replaced 97% of the reserves they took out of the ground with new finds, essentially keeping the cupboard stocked for future years. In 2003, companies replaced 84% of the reserves they took out of the ground.

The largest producers of natural gas in the U.S. -- such as BP PLC of the United Kingdom, Exxon-Mobil Corp., of Irving, Texas, and Chevron-Texaco Corp., of San Ramon, Calif. -- found new gas to replace only 52% of the gas they extracted. "These results should be of major concern for consumers of natural gas," Ms. Hannan said.

That concern applies to the long term as well as this summer. A warmer-than-usual summer would tax supplies as natural-gas-fueled power plants are started up to keep air conditioners humming. "The terrifying thing is if we have a hot summer," says Robert Esser, a senior consultant at Cambridge Energy Research Associates, "you could have summer [price] spikes." The underlying reason, he says, is growing demand and flat supply. In 2001 and 2003, cold weather led to extraordinary price increases in the winter, when natural gas surged past $10 a million BTUs, but there haven't been such extreme summer price increases before.

A supply crunch during the summer could quickly erase the healthy amount of natural gas being injected into underground storage reservoirs for the winter. Current storage inventory is average for this time of year and in much better shape than a year ago, when low injection rates in the early summer spooked traders and pushed up prices.

Meanwhile, the power-generation industry's natural-gas demand is up 4% from last year and is expected to continue growing. "The underlying demand coming from the power sector is such that you are always going to be strained to meet that demand on the supply side," says Stephen Brink, director of fundamental analysis for EnCana, a Calgary company that is one of the largest North American energy producers.

Regulators OK natural gas line for reopening

John Dodge, The Olympian, June 15

Federal regulators have given Williams' Northwest Pipeline the go-ahead to transport natural gas through a section of pipeline that runs through Thurston County.

The 45-mile-long segment from Fort Lewis to Chehalis is part of the 268-mile-long pipeline that that was shut down in December after two ruptures in the line, including one Dec. 13 near Toledo in Lewis County.

The federal Office of Pipeline Safety and the Pipeline Safety Division of the state Utilities and Transportation Commission had ordered the company to test and repair defective segments of the pipeline, which was installed in 1956.

Tests completed on the south county segment found no signs of weakness or failure, company spokeswoman Bev Chipman said. "The testing went very smoothly," she said. "We found no problems."

Alan Rathbun, pipeline safety director for the state utilities commission, said the portion of the line that runs east of Yelm and Rainier and crosses the Deschutes River south of Tumwater passed the tests without a hitch.

The hydrostatic tests involve filling sections of pipe with water at a pressure higher than what the pipe is exposed to when gas is flowing in it. A leak or break during the test identifies a weak area in the line that must be replaced.

Two other sections -- 17 miles between Mount Vernon and Snohomish and 16 miles of line between Battle Ground and Washougal -- also have been cleared for transporting gas.

The company has 32 miles between Sumas and Mount Vernon left to reach its goal of 111 miles back in service later this month.

By having about 40 percent of the idle line back in service in concert with a newer, parallel line that has continued to deliver gas, Williams can meet the natural gas supply needs of its utility customers this summer, Chipman said.

All of the aging pipe must be replaced within 10 years, according to the December 2003 order.

Vehicle exhaust plan is unveiled

Automakers protest the measure aimed at greenhouse gases.

By Chris Bowman *, Sac Bee June 15, 2004*

California's first-in-the-nation law cutting tailpipe exhausts linked to global warming will add hundreds of dollars to the price of a new vehicle by 2014, but the cost will be more than offset by better fuel economy, state regulators said Monday.

The projected consumer costs are contained in the first draft of rules proposed under a law enacted in 2002 to limit global-warming emissions from cars, pickup trucks and other passenger vehicles.

"No one else in the world has done this," said Jerry Martin, spokesman for the state Air Resources Board. "As the fifth-largest economy in the world, we feel we have an obligation to be a leader in this area as we are in the control of other automotive pollutants."

If adopted, the plan effectively would require auto manufacturers to improve gas mileage. Unlike soot and combustion exhausts that contribute to smog, the only way known to lower the exhausts believed to alter climate is to cut fuel consumption.

Automakers have threatened to sue California on grounds that the law is a subterfuge for regulating fuel economy, which only the federal government has authority to control.

"It's illegal," said Eron Shosteck, spokesman for the Alliance of Automobile Manufacturers, representing the world's largest automakers, except Honda.

The plan released Monday would require manufacturers to reduce by nearly 30 percent the emissions of carbon dioxide and other greenhouse gases, so named because of their heat-trapping effect in the atmosphere.

Most scientists say the combustion of fossil fuels from vehicles, power plants and other human activities in the last few hundred years is accelerating the rate of climate change. California officials say the change threatens to shrink the state's water supplies, inundate coastal communities and worsen wildfires.

Under the greenhouse gas law, written by Assemblywoman Fran Pavley, D-Agoura Hills, the Legislature has a year to review the regulations before they take effect, in 2006.

The air board proposal calls for imposing the emission reductions beginning with 2009 model year vehicles and gradually increasing the reductions through 2015.

By 2014, the engine modifications on average would result in increased vehicle prices ranging from $780 for cars to $1,177 for big passenger trucks, according to the air board proposal.

The law requires only that manufacturers achieve "the maximum feasible and cost-effective reductions of greenhouse gas emissions," leaving it to automakers how exactly to accomplish that.

The board proposal suggests engine-design changes that lower friction in combustion cylinders and improve valve timing but sidestep changes controversial in the auto industry, such as reducing the size and weight of vehicles or eliminating accessories that increase fuel consumption.

The U.S. Environmental Protection Agency has declined to adopt similar regulations, saying the greenhouse gases technically are not "pollutants" as defined under the federal Clean Air Act. California Attorney General Bill Lockyer has sued the Bush administration, challenging the decision.

The California proposal is unprecedented in that it broadens the scope of emissions regulation beyond pollutants shown to cause direct harm to people, such as cancer-causing diesel soot and smog.

The proposal targets carbon dioxide, methane and nitrous oxides, which are not hazardous to breathe but are believed by most scientists to trap Earth's heat, like the panels of a greenhouse. This "greenhouse effect" raises the atmospheric temperature, which can lead to changes in sea levels, water supplies and crop production, and worsen disease and wildfires, scientists say.

The air board is accepting public comments on the proposal, which can be read in full at www.arb.ca.gov/cc/cc.htm. The board is accepting public comment through July 6 and is scheduled to vote on a final draft Sept. 23.

Air cleanup plan

Officials say the state proposal to fight global warming would:

- Reduce greenhouse gas emissions from passenger cars and light trucks by nearly 30 percent.
- Add an estimated $780 to $1,177 to the price of new vehicles by 2014.
- Encourage certain vehicle technologies such as turbocharging with smaller engines, smoothershifting transmissions and reduced hose leaks from air conditioners.
- Result in a net decrease in vehicle operating costs. To review the proposal online, go to: **www.arb.ca.gov/cc/cc.htm**

Source: California Air Resources Board

In The Northwest: It's time for consumers to get angry at the FERC

By JOEL CONNELLY, PI, June 16

The language is less foul, but the latest batch of Enron documents shows how energy traders found a gold mine while West Coast ratepayers were given the shaft.

Our manipulated power shortage of 2000-2001 sent jolts through the economy for which the Northwest is still paying. Just ask the aluminum smelter workers who lost family-wage jobs, or those in cold storage plants who felt the chill of soaring electrical rates.

Sure, the stuff is less sexy than the Scott Peterson murder trial, or O.J. Simpson reflecting 10 years later on his quest for the killers of his ex-wife.

Still, this region MUST remember what was done to its reliable, inexpensive energy source during the Wild West heyday of deregulation. Forget and we will be condemned to repeat the experience.

If citizens don't start getting angry at the laggard Federal Energy Regulatory Commission -- charged under the Federal Power Act with seeing that rates are "just and reasonable" -- we won't get back any of the $1.1 billion that Enron ripped off from the West.

Want to get mad? Just read this transcript from Enron traders on how power transmission lines were loaded up during periods of peak use.

"If the line's not congested then I just look if I can congest it," says one trader.

"Right, right," responds a colleague.

"So, like those hours, if you can congest it, that's a money-maker no matter what, 'cause you're not losin' any money to move it down that line," explains the first trader.

On another occasion, Enron bought power in California and transported the electricity to Malin, Ore. A utility was paid $5 per megawatt hour to "launder" (disguise the origin of) the power.

Enron then sold the power back to California on an emergency "Out of Market" basis for $750 a megawatt hour. The Houston-based company made $222,678 on the deal.

We've previously learned of manipulation strategies with names like "Ricochet" and "Death Star."

More new Enron trading schemes have been identified, named: "Ping Pong," "Sidewinder," "Donkey Punch," "Spread Play" and "Russian Roulette."

The treasure trove of information comes courtesy of the Snohomish County Public Utility District, which is being sued for $122 million by Enron as a result of breaking one of the sky-high contracts.

What of the regulators who were supposed to safeguard the public against getting bitten by "Sidewinder" or kicked by "Donkey Punch"?

The Federal Energy Regulatory Commission's trial staff tried to quash the subpoena by which the Snohomish PUD's attorneys got hold of Enron's damning audiotapes.

The commission has failed to use its authority, under sections 205 and 206 of the Federal Power Act, to determine if power contracts with Enron were "just and reasonable."

The commission is apparently holding onto still more Enron documents that have not been released to the public. Sen. Maria Cantwell, D-Wash., and the Snohomish PUD are working backstage to pry loose the additional evidence.

So far in its investigation, the commission has identified just $6.3 million in unjust Enron profits for the period between Jan. 1, 2000, and June 20, 2001.

Yet, as Cantwell wrote in an angry letter to FERC Chairman Patrick Wood III on Monday, "many of the tapes suggest that Enron's daily profits were in the millions of dollars." Based on its study of documents released so far, the Snohomish PUD estimates that Enron illegally obtained at least $1.1 billion in profits from the West's ratepayers.

"It will be next to impossible for the ratepayers of the West to get the justice they deserve if FERC continues to either ignore or suppress evidence demonstrating Enron's intent to manipulate markets and gouge consumers," Cantwell wrote.

Cantwell called on the commission to "open a new investigation." Don't hold your breath.

A couple familiar names crop up in thinking about how to get to the bottom of the great 2000-2001 power rip-off, and make amends: One is Ronald Reagan, the other George W. Bush.

Reagan made an unholy mess of the U.S. Environmental Protection Agency by staffing the agency with ideological soul mates. The head of the vital Superfund cleanup program, Rita Lavelle, actually went to jail for lying to Congress.

The administration had the smarts to clean up the damage it caused. The "ice queen," EPA Administrator Ann Gorsuch Burford, was ousted. The EPA's first administrator, William Ruckelshaus, was brought back from the boardrooms to head the troubled agency.

Would Bush dare do likewise?

Enron Chairman Ken Lay and wife, Linda, gave more than $1 million to the president's political coffers in years before the Houston-based energy trading company went bankrupt late in 2001.

The Lays are No. 10 on a recently compiled list of big-money Bush donors known as "Pioneers."

Lay was part of the Energy Department transition team. He met with Vice President Dick Cheney to make inputs on energy policy.

He commended the name of Patrick Wood III to the White House personnel office for appointment as chairman of the Federal Energy Regulatory Commission.

In our state's 2000 primary, Bush blanketed the airwaves with TV spots carrying the slogan: "A Reformer with Results." Washington gave him a key victory over John McCain.

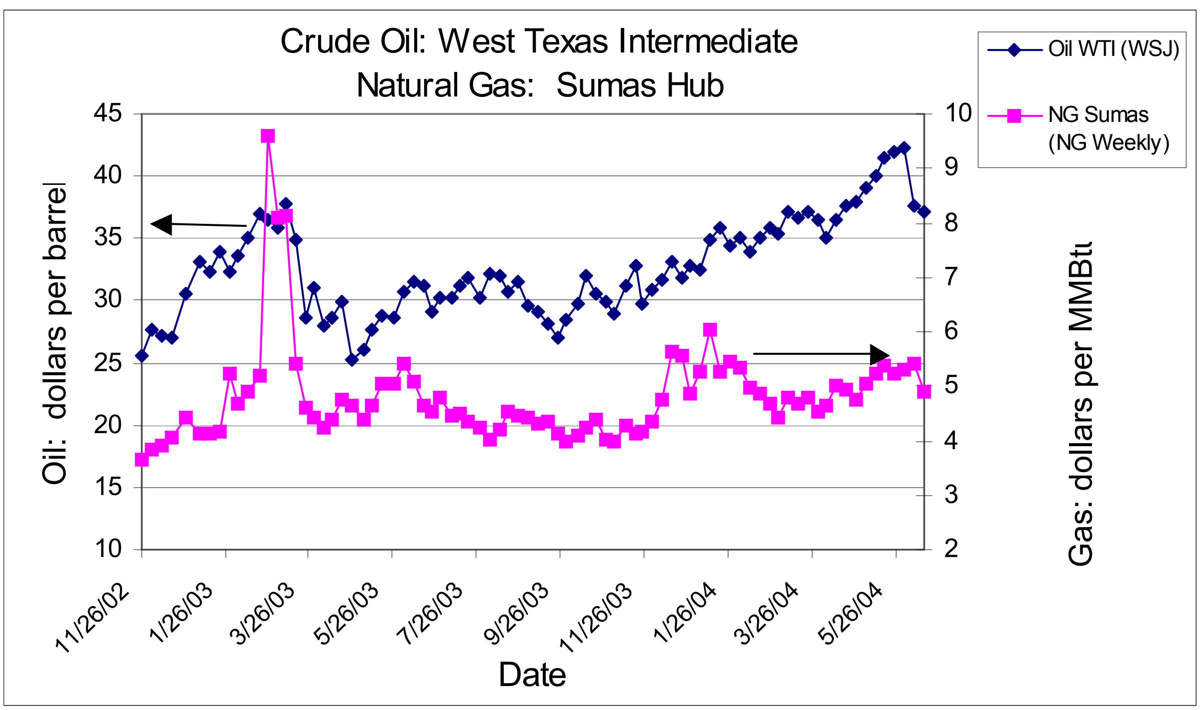
Dubya ought to live up to his own slogan.

The Federal Energy Regulatory Commission needs resignations, reform and results in the form of refunds to West Coast ratepayers. The power rip-off cost the average household a lot more than those ballyhooed $300 tax refund checks the Bush administration sent us.

One more suggestion:

Instead of shaking down rich Republicans in Spokane this week, George W. Bush should sit down with laid-off Kaiser Aluminum workers and learn what it is like to lose a living wage.

Crude oil prices declined for the second week as OPEC gradually increased production and oil market speculators took a pounding. State average prices for retail gasoline and diesel declined about a nickel this week, to $2.24/gal. and $2.18/gal respectively. Natural gas prices have declined slightly as oil prices have come down. Prices will begin to rise as hot summer weather arrives in the next several weeks and air conditioning use increases.



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Wednesday June 23, 2004

Weekly Energy Status Report

1. Northwest Power Pool Status (WA, OR, ID, MT, WY, UT, No. NV, BC, AB)

- Power Pool peak load (Tuesday, 6/22): 46,571 MW
- Reserve margins were within comfortable ranges for Northwest Power Pool utilities.

2. Electricity, Petroleum and Natural Gas Prices

- Weekly Range at Mid-C: $12.7- 47.9 per MWh, Ave. = $33.8
- Approximate change from previous week $+17.2 per MWh
- "Normal" price range, before 5/00 $20-$40 per MWh
- Petroleum, West Texas Intermediate: $37.35 per barrel (year ago: $29.17)
- Seattle gasoline price (6/22) $2.22 per gallon (year ago $1.61),
- Natural gas, Sumas Hub: $5.29 per million British Thermal Units (year ago $4.55)
- Approximate change from last week. Oil: +0.17 $ per barrel; Nat. gas: +0.38 $ per MMBtu

3. California Electricity Situation

- CA ISO Alert Status
  - A transmission emergency was declared May 3 in So. Cal.: Voluntary curtailment was requested
  - A stage 1 alert, due to an unexpected heat wave, was declared on Mar. 31, 2004.
  - 20 minute outage in So. Cal. on March 8, 2004 due to operator error.
  - Most recent rotating blackouts: Tuesday, May 8, 2001

4. Energy News Headlines from around the Nation

- Shell plans to cut output at Bakersfield refinery (LA Times, June 22)
- Federal panel to review refinery capacity (Reuters, June 22)
- Ruling allows Calif. to keep ISO control (Sac Bee, June 23)
- WA State Electricity Supply Overview – Summer 2004

5. River and Snow Pack Information (Updated: June 15, 2004)

- Observed May stream flow at The Dalles: 79% of average,
- Observed May precipitation above The Dalles: 140% of average,
- Observed snow pack, early May: 66% of average,
- Estimated Jan.-July runoff at The Dalles: 85.1 MAF, 79% of normal,
- Federal hydropower generation in May: 9,057 aMW, 1995-2002 average: 10,368 aMW.

6. Energy Conservation Achievement (Updated: Feb. 11, 2004)

- State Agencies: From Oct thru Dec 2003 electrical usage was 9 % less and natural gas usage was 21.3% less compared to the same period in 2000.

7. Power Exchanged: (Updated: June 22, 2004)

- Average flow of power during the last 30 days
  - California (exported to) 3,570 MW
  - Canada (exported to) 1,389 MW
  - Net power export: 4,959 MW

Shell to Cut Summer Output at Bakersfield Refinery, Papers Say

By Elizabeth Douglass, LA Times, June 22

Shell Oil Co. plans to put the brakes on production at its Bakersfield refinery in July and August, potentially shorting California's fuel supplies during the summertime driving season, according to internal Shell documents.

The planned cutback is the latest development in the controversy over the refinery, which can process up to 70,000 barrels a day of crude oil and makes about 2% of California's gasoline supply and 6% of its diesel. Shell has said it will close the facility Oct. 1 in a move that experts predict will boost pump prices by worsening the chronic imbalance between supply and demand in the state.

The internal documents obtained by The Times, including a refinery output forecast, indicate that Bakersfield will soon be producing far less than its capacity. After relatively high output rates in May and early June, Shell plans to cut crude oil processing about 6% in July and another 6% in August, according to the forecast.

Those two months are when California's fuel demand reaches annual peak levels.

Aamir Farid, general manager of Shell's refineries in Bakersfield and Martinez, said he couldn't confirm that there was a production slowdown in the works.

"If that's the case, there is a good reason for it," he said.

There could be maintenance planned or projections for a shortfall of crude, he added, but "off the top of my head, I don't know what that good reason is.

"We're not playing any games. We're not shutting down early," Farid continued. "We're going to run as we normally run everything. We're not doing anything different through Labor Day, for sure, because we don't want to impact anything during driving season."

Refining industry experts said production at a facility slated for a shutdown wouldn't need to be curtailed until shortly before the closing date, when the owner would begin emptying and cleaning the equipment.

The Shell forecast says the Martinez refinery, in the Bay Area, will also cut crude processing in July, by nearly 10%, a reduction attributed to planned heavy maintenance called "turnarounds" as well as other work.

Farid said it wasn't unusual for maintenance work to occur during the peak driving season instead of the traditional spring maintenance season. Rob Schlichting, a spokesman for the California Energy Commission, agreed with that assessment.

But Jamie Court, president of the Foundation for Taxpayer and Consumer Rights in Santa Monica, said he believed Shell was up to no good.

"They are cutting back production coming into the busiest driving holiday of the year," Court said. "That's incontrovertible proof that Shell is artificially limiting supply in order to drive up prices."

Court contended that motive explained why Shell didn't search out potential buyers for the refinery once it decided to shutter it.

Interest in the refinery grew after Sen. Barbara Boxer (D-Calif.), state Atty. Gen. Bill Lockyer and others complained publicly that Shell wasn't actively putting it on the market. A Shell spokesman said the company had so far received 23 inquiries — up from 18 a month ago — and that five parties had signed confidentiality agreements to delve into the Bakersfield books.

They'll find that the refinery has recently been a moneymaker: The Shell documents show that Bakersfield's profit of $11 million in May was 57 times what the company projected and more than double what it made in all of 2003.

Farid said that shouldn't be interpreted to suggest that Shell was wrong to plan to close the plant. "You still have to assess whether you're going to generate a return on investment that you think is adequate," he said. Despite the big profit in May, "our view hasn't changed."

Last month, Lockyer's office hired an industry consultant to study the financial viability of the Bakersfield refinery and report back before the end of July.

Meanwhile, the Federal Trade Commission continues to investigate Shell's plan to close the refinery, which became a wholly owned Shell asset in 2001 as part of the commission's approval of the merger that created ChevronTexaco Corp.

"The FTC is digging into the details of this closure," said Boxer, who met recently with commission officials. But she added that the agency wouldn't complete its probe until after Labor Day.

"I'm not happy with that…. They need to move more quickly," she said, especially in light of Shell's move to taper off production. "The investigation's meaningless if everything is shut down, dismantled and all the rest."

The Bakersfield refinery is surrounded by prolific oil fields that produce San Joaquin Valley heavy crude. The company, a part owner of several of those fields, has said it wants to close the facility so it can divert more of the heavy crude to its refinery in Martinez, which Shell has said is more efficient than Bakersfield and is suffering from "underutilization" because of dwindling supplies of the San Joaquin crude it is set up to process.

The internal documents show that most of the Martinez refinery is set to run at or near maximum capacity and that it booked net profit of $34 million in May, which is just shy of Shell's profit expectations at Martinez for all of 2004.

Panel to Examine Refining Capacity, Oil Stocks

By REUTERS, June 22, 2004

A federal advisory panel will assess U.S. oil refining capacity and crude oil stocks to see if steps can be taken to boost energy supplies, U.S. Energy Secretary Spencer Abraham said on Tuesday.

``There is no question that one of the significant energy challenges we face is insufficient refinery capacity," Abraham said at a meeting of the National Petroleum Council. The council, made up of oil and natural gas industry executives, is a federal advisory committee to the U.S. energy secretary.

Abraham also asked the council to study current assumptions about adequate U.S. crude oil inventories. The industry now uses a threshold of 270 million barrels to determine whether supplies are adequate or not, but Abraham questioned whether that assumption is ``still appropriate."

``It's obvious that inventory levels are one of the things the market watches very closely, and they play a role in setting prices," Abraham said.

Nine industry analysts polled in a previous Reuters survey agreed the inventory figure should be lowered, possibly as low as 250 million barrels.

The crude inventory threshold has been a moving target for an industry that has seen many drilling advances over the last few decades.

In 1983, the National Petroleum Council found the level signaling low inventories was 285 million barrels, which rose to 300 million barrels when the panel again addressed the issue in 1988, before falling to 270 million barrels in 1998.

Last week, the Energy Information Administration reported that U.S. crude oil stocks totaled nearly 303 million barrels, a level that was about 9 million barrels below the five-year average for this time of year. Traders expect crude oil stocks to rise by about 1 million barrels when the EIA issues its weekly report on Wednesday.

John Felmy, chief economist of the trade group American Petroleum Institute, said the current threshold has been used since early 1990s and may be outdated.

``With new technology, we really don't know what that (adequate) level is," Felmy told Reuters on the sidelines of the meeting.

``It makes sense to have another high-quality study," said Bob Slaughter, president of the National Petrochemical and Refiners Association. ``Demand for our products has kicked in in a big way."

Record-high retail gasoline prices last month prompted some Republican lawmakers to urge construction of the first new U.S. oil refinery in three decades.

Last week, the U.S. House of Representatives approved a bill that would ease environmental regulations to clear the way for construction of refineries in areas with high unemployment. However, the bill has virtually no chance of passage in the Senate.

Experts estimate building a new refinery would cost upwards of $1 billion. The last independent U.S. refinery was built in 1976.

Ruling lets California keep ISO control

Federal agency can't take over the energy grid, the court says.

By Stuart Leavenworth *June 23, 2004*

California won a small triumph Tuesday in its multipronged legal battle against energy companies and the Federal Energy Regulatory Commission.

Siding with California, the U.S. Court of Appeals rejected an attempt by FERC to wrest control of the state's Independent System Operator, which manages the state's power grid.

The ruling does not directly help California as it tries to recover billions of dollars that energy companies allegedly overbilled the state during its power crisis of 2000 and 2001. But it could close the door on a seven-year feud that has strained relations between California officials and federal regulators, making resolution of other disputes more difficult.

"Today's victory is a clear victory for California," said Michael Kahn, chair of the ISO's board of governors, in a statement. "We will continue to work toward improving our relationship with the FERC, and see the decision today as elimination of the one issue that stood between the state and federal government."

At issue is who controls a Folsom-based power center where statewide electricity supplies are monitored, routed and redirected so energy companies can easily transmit supplies to utilities and consumers. Along with serving as the electron "traffic cop" for 35 million people, the Independent System Operator also monitors wholesale power prices to ensure that costs remain reasonable.

Ever since the ISO was created in 1997, energy companies and market advocates have wanted to free the ISO board from gubernatorial interference. The dispute reached a peak during the energy crisis of 2001, when lawmakers and Gov. Gray Davis abolished the existing ISO board -- claiming that industry representatives had helped trigger the crisis -- and replaced it with five of the governor's appointees.

Energy companies claimed the move conflicted with FERC's open-market policies, since the state had since gone into the business of buying power and was therefore a "market participant." FERC agreed and ordered California to set up a more independent process of appointing people to the ISO board.

California then filed suit in U.S. District Court in Washington, D.C., and a power company, Duke Energy North American, intervened on behalf of FERC.

On Tuesday the court issued a tersely worded, 16-page opinion that rebuked federal officials for an "unprecedented invasion" of a utility's internal governance.

"Lest there be any mistake, FERC has done nothing less than order a public utility subject to its regulation to replace its governing board," the court wrote.

State Electricity Supply Overview

Summary: Reasonable hydropower supply expected this summer and winter. Significant new generation has come on line, while demand remains low. No electricity supply problems expected.

Hydropower Situation

Projected stream flow Jan-July at The Dalles: 79% of normal (as of 6/7/04). Last month projection was 74%. These projections are compared to 2001 when streamflow was 52%.

Projected Coordinated System Refill: 92%

Projected Refill of Key Reservoirs

Libby	90%	10% below full due to now active fish flow. This is now normal for Libby.
Mica	84%	Poorest refill of key reservoirs.
Arrow	98%	Excellent status
Grand Coulee	92%	Will be 5 feet short of full.
Hungry Horse	100%	

New Generating Capacity

Significant new generating resources have been constructed in the region since 2001.

Category	Installed Capacity
Thermal	2,166 MW
Renewable*	217 MW
Total	2,383 MW

* Wind and Biomass

Electricity Demand

Regional energy demand averaging ~ 1500 to 2000 MW less in 2004 than in 2000 Regional Winter peak demand was similar to 2000. Region has largest excess capacity in nation to meet peak demand (~35%).

Northwest Power and Conservation Council February Loss of Load Probability for Winter, 2004/2005 is 1 percent (Five percent is national industry standard). No update has been made as it does not appear from reservoir, streamflow and demand data that there is any real problem.

Demand Management

Efficiency resources continue to be acquired. Can implement fast track programs if necessary as in 2001. Do not have flexibility to curtail 1500 MW of aluminum plants as done in 2001. Only 200 MW aluminum still operating in region.

Rates

BPA rate increase ~ 50 percent after 2001. Recent agreement to lower rate by six percent, therefore effective 44 percent increase compared to 2000. Wholesale rate ~ 50 percent of utility costs. Therefore a utility receiving 100% of its power from BPA would have seen a 25 percent increase in its retail rates after 2001, now to be reduced by three percent. Generally, rates are still very high in Washington and the region compared to 2000.